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ENVIRONMENTAL CONSIDERATIONS IN MULTILATERAL DEVELOPMENT BANK PROJECTS

HEARING

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

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ENVIRONMENTAL CONSIDERATIONS IN MULTILATERAL DEVELOPMENT BANK PROJECTS

WEDNESDAY, SEPTEMBER 18, 1985

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN OPERATIONS,
COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:10 p.m., in room SD–192, Dirksen Senate Office Building, Hon. Robert W. Kasten, Jr. (chairman) presiding.

Present: Senators Kasten, Specter, and D'Amato.

DEPARTMENT OF THE TREASURY

INTERNATIONAL AFFAIRS

STATEMENT OF DAVID C. MULFORD, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY

ACCOMPANIED BY JAMES W. CONROW, DEPUTY ASSISTANT SECRETARY FOR DEVELOPING NATIONS, DEPARTMENT OF THE TREASURY

OPENING STATEMENT OF SENATOR KASTEN

Senator KASTEN. The hearing will come to order.

We have called this hearing today to learn more about environmentally damaging projects being supported in less developed countries by Multilateral Development Banks [MDB's].

Second, I want to focus on the institutional changes that could be made or that should be made to prevent the abuse of the environment and native peoples of these nations.

At the outset, I would like to emphasize that we are not here just to be critical of lending policies, but to seek positive suggestions for change.

For the past several months, I have been deeply involved in getting a single unacceptable project stopped. That project is the Polonoroeste project in Brazil.

It has come to my attention, however, that this particular project is not unique. This is not just an environmental issue, however. Environmental devastation can lead directly to the collapse of an economic base and can cause unimaginable human suffering.

I would like to take a couple of minutes to review a single example of such an environmentally unacceptable project. Then I would like to

hear from today's witnesses and learn more about how widespread this problem is. Most importantly, I want to focus on what we might do about these problems.

It is somewhat ironic that this Brazilian project has been financed by a lending institution that is recognized as the leader among all of the multilateral banks in considering and avoiding excessive detrimental environmental impact. I believe, however, that this project demonstrates that even the very best of the bunch is not very good. Instead, I suggest, there has been a blatant disregard for environmental protection and insensitivity to the protection of native peoples.

HIGHWAY CONSTRUCTION IN BRAZIL'S RAIN FOREST

The Polonoroeste project is a massive effort to build a road into the interior of Brazil's Amazon rain forest. It is being supported by the World Bank through a series of loans totaling over $434 million.

The initial portion of the project financed the paving of a 1,500 kilometer highway into the heart of the tropical rain forest. The project has resulted in deforestation on an almost unbelievable scale. With me here are two satellite photographs of the project area. These photographs illustrate how widespread the devastation to the Brazilian rain forest by this one project is.

SIZE OF AREA BEING DEFORESTED

The first photo was taken on July 24, 1984. It shows the deforestation of an area the size of Great Britain, or an area roughly the size of Italy. The lighter tones are the vegetated areas, while the darker tones are areas where all vegetation has been removed.

So you can have a better understanding of the scale, let me point out that the white marks on the side of photo illustration one are the lines of longitude and latitude. So we are talking about a huge area.

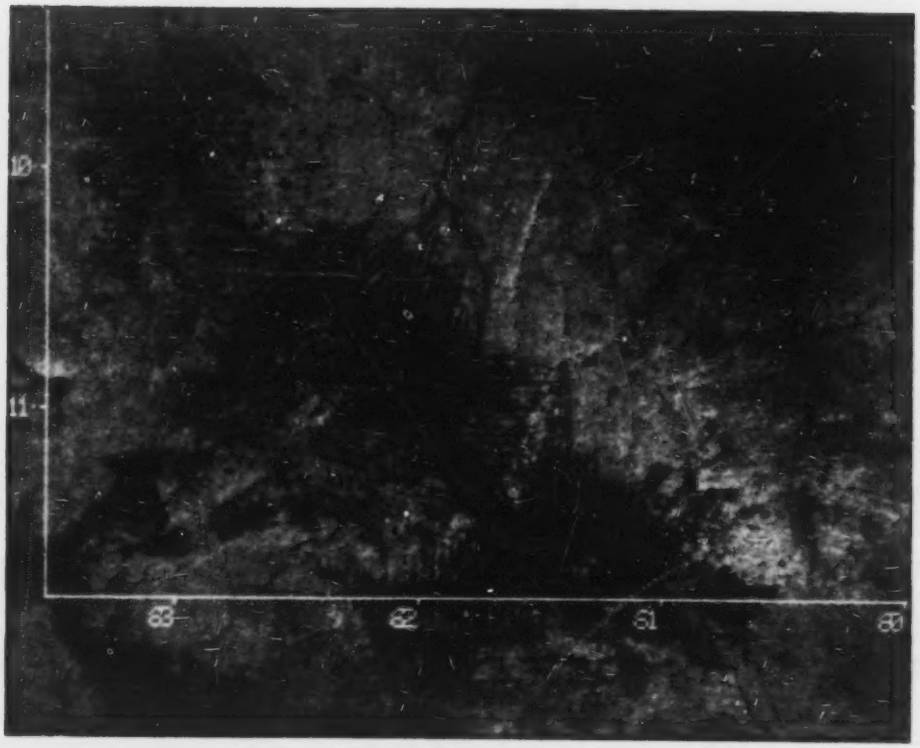

PHOTO ILLUSTRATION 1

SLASH AND BURN PROCESS

The second photograph is color infrared satellite imagery taken just last year. This photograph shows areas where the forest is being pushed still further back. The red and yellow spots are areas that are being burned. This is part of the slash and burn process that is used to clear new lands before being settled.

As you can see from this photograph, the extent of devastation taking place during a single 3-day period. This kind of activity has been going on the year-around, and has led to the destruction of millions of acres of tropical rain forest.

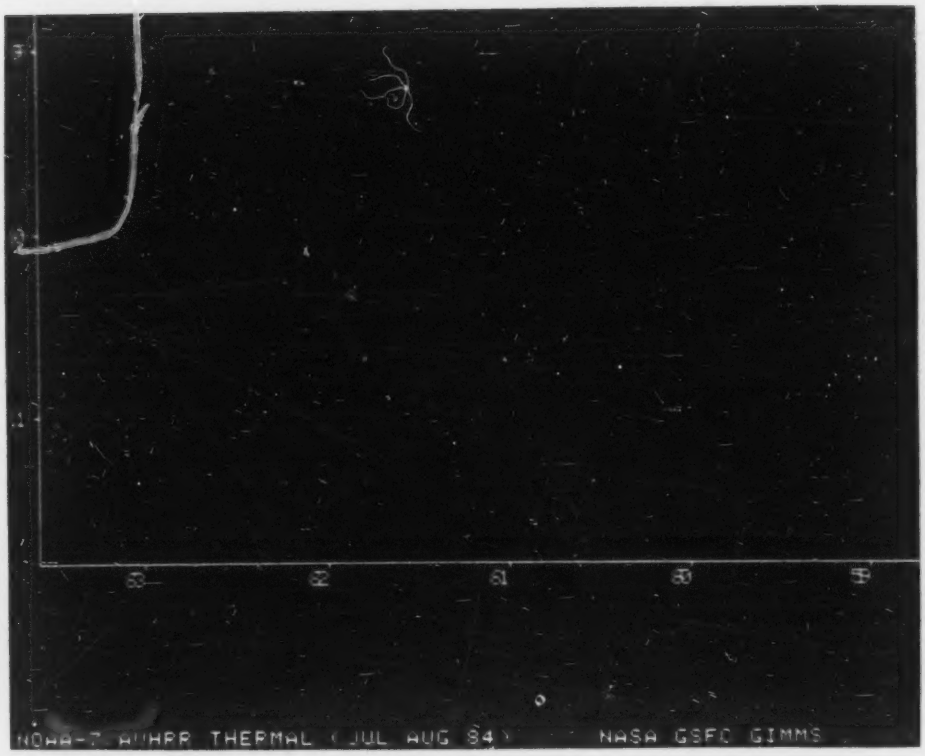

PHOTO ILLUSTRATION 2

WORLD BANK FUNDING OF PROJECT

What is most amazing about this project, however, is that the World Bank continued to fund it for more than 2 years after the World Bank had identified, through its own supervisory missions, that the project was producing environmental devastation on the scale that you can see before you.

In addition, from the very beginning, a large number of international experts expressed doubts that agriculture could succeed in this area. The fragile soils of the region simply could not withstand the more intensive forms of agriculture and cattle production being introduced into the area.

As I have said before, this project was supported by one of the leaders in environmental protection among the Multilateral Development Banks. If this is the best they can do, I am gravely concerned about the type of activities that are being supported by the others.

I am sure that the American people would be shocked to learn that their tax dollars go to support institutions that sponsor devastation of such valuable resources and such limited resources.

The focus of today's committee meeting is to hear from leading experts about how frequently misdirected development projects lead to similar environmental and cultural devastation. What I hope we can

learn is, first of all, how widespread these types of problems are; second, and most importantly, what guidelines we should be working to include in reviewing potential new projects to assure that these abuses do not occur in the future.

In addition, it is my hope that as part of this discussion, we can hear about additional steps or, I might say, additional checkpoints that can be included in the critical path that the projects must pass through before they get selected for financing, and similar criteria that could be included as we work through the regular review process.

INTRODUCTION OF WITNESS

We have a number of witnesses before us today, and I am pleased to introduce, first of all, Mr. David Mulford, who is the Assistant Secretary for International Affairs of the Department of the Treasury.

David, we are pleased to have you with us. I thank you for participating in what I hope will be the beginning of a constructive dialog as we work to address some of these very, very difficult problems.

Mr. MULFORD. Thank you very much, Mr. Chairman.

MDB PROJECTS IN DEVELOPING NATIONS

Mr. Chairman, I appreciate the opportunity to discuss with this committee the environmental aspects of multilateral development bank lending operations.

There is broad support in this country and in other countries for the banks and their efforts to further the economic development of borrowing countries. Often, the loan decisions involve hard choices. In making those choices, the banks need to include and weigh environmental aspects. The notion of improving conditions in developing countries includes both preventing the deterioration, as well as enhancing the environment in which people live.

In the past, the Treasury Department assumed that environmental aspects were being adequately addressed and concentrated its main energies on examining MDB projects from an economic and financial perspective.

It was not until the U.S. Congress, and this committee in particular, raised their concerns about the environmental effects of MDB projects that we turned our attention to such issues. While examples of beneficial projects that are environmentally sound can be cited, over the last 2 years, we have found MDB performance, on balance, inadequate.

I will be submitting for the record a more detailed statement of our views, but frankly, Mr. Chairman, the problem boils down to the need to make the banks aware that the environmental aspects of projects have to be systematically addressed.

ENVIRONMENTAL EFFECTS OF MDB PROJECTS

For many months, environmental groups from many countries have been raising questions regarding the environmental effects of development bank projects. The U.S. Treasury has been pressing these matters in the banks as well.

However, we did not begin to see significant progress in these issues until you, Senator Kasten, took a strong interest. The concern you expressed over failing World Bank projects in Brazil was instrumental in stimulating a reassessment of performance.

As a result, the Government of Brazil has taken steps to ameliorate some of the most grievous problems, but much remains to be done in that area. I know you will continue to follow developments closely.

It is fair to say that in many cases, the damaging side effects of projects might have been difficult to avoid. But we think that the banks might have taken more time and insisted more firmly that environmental issues be addressed before bringing forward projects for approval.

At this stage, our best advice to the banks would be: Complete your environmental planning and ensure that any needed environmental measures will be provided before recommending projects for funding.

In this broader context, I think that the banks are beginning to understand the concerns that we have expressed about the environmental effects of projects. Public groups have presented disturbing evidence about specific projects for many months. They have offered suggestions, and we are beginning to see some of the results.

ENVIRONMENTAL ASPECTS OF DEVELOPMENT BANK PROGRAMS

The African Development Bank has hired its first environmental specialist. The Inter-American Development Bank has formed an internal committee on the environment to strengthen project design and implementation. We hope to see a rising awareness and further action of this type in the coming months.

In the end, I remain convinced that the banks are thoroughly committed to the development and well-being of the people in the borrowing countries. With this starting point, I continue to believe that the Congress, interested public groups, the banks, and the Treasury Department can work together in a constructive way to improve MDB management of the environmental issue.

Thank you, Mr. Chairman. I would be pleased to answer any questions which you may have.

[The prepared statement of Mr. Mulford follows:]

PREPARED STATEMENT OF DAVID C. MULFORD
ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS

Environmental Aspects
of Multilateral Development Bank Operations

Mr. Chairman and Members of the Committee, I appreciate the opportunity to discuss with you the environmental aspects of the multilateral development bank (MDB) lending operations. The MDBs are important to U.S. foreign policy as the single largest source of development assistance in the world, but in the environmental area their performance has been mixed.

After describing our perception of the pattern of project problems that have come to light, I will outline the institutional shortcomings which the MDBs appear to share at this time and discuss some steps that might be taken in the future.

At the outset, I should make clear that the Treasury Department is not an agency of government charged with maintaining a full scale professional capability to manage the possible environmental issues. We have approached the set of issues that I will be describing in a laymen's way, while drawing on the competence which resides in other U.S. agencies and in public interest organizations.

Our attention has been forcefully drawn to the environmental implications of MDB projects by a series of hearings in the Congress over the last two years and by the energetic efforts of spectrum of U.S. environmental organizations. This Committee has held hearings and expressed forceful concern over these issues. The breadth and intensity of public and Congressional interest appears to us consistent with the severity of the problems we have encountered.

Our objective is to encourage the MDBs themselves to strengthen their in-house capability to manage these issues, so that the intense attention which has been devoted to this

subject in the last two years becomes superfluous and can be diminished.

The Pattern of Environmental Problems

Three traditional areas of MDB lending have been the focus of attention: hydroelectric and multi-purpose dam projects in tropical regions, penetration road projects into relatively uninhabited regions and agriculture and rural development projects. Projects in these sectors have involved significant effects on human health and on the management of natural resources in countries which borrow from the MDBs. While occasionally our attention has been drawn to environmental issues in other lending sectors -- for example, the management of municipal pollution and cross-border effects on neigboring countries in connection with water and sewage projects -- these have not been the subject of intense concern in the public discussion of the last two years to which we are addressing ourselves here today.

Large impoundments of rivers in tropical countries -- whether for hydroelectric, irrigation, flood control or other purposes -- are substantial investments. Project cost is rarely less than $100 million and often involves many billions of dollars. During fiscal year 1984, the MDBs approved ten projects related to dam construction, which accounted for $1,262.3 million, or about six percent of total commitments.

The environmental problems associated with water impoundments in tropical regions have been serious and several. These include deterioration of water quality, siltation problems, and threats to human health and well-being.

When the lush vegetation of tropical forests has been left in an impoundment and the reservoir of water is subsequently filled, the vegetable matter undergoes slow decay underwater with a minimum of oxygen availability. These conditions can lead to a severe deterioration in water quality, affecting power generation equipment as well as the usefulness of

water for irrigation and human consumption. In extreme conditions, a large impoundment with decaying vegetation and relatively small amounts of water entering and leaving the reservoir can develop into an ideal growing area for prolific water plants, such as water hyacinth or water lettuce. These plants can deprive fish of oxygen, curtailing any incidental fishery benefits that might have been envisioned for a project, and can become entangled in power generation equipment, substantially increasing maintenance and replacement costs. An appropriate mitigatory measure to avoid these water quality problems is to remove the existing vegetation prior to filling the reservoir. In cases where the cost of completely clearing a reservoir area would be prohibitive, removing a substantial portion may suffice to ensure appropriate water quality.

The most dramatic examples of impoundments with water quality problems are now several decades old, but the associated costs remain severe. Frequent replacement of power generating equipment and expensive, repetitive removal of floating vegetation can significantly reduce the expected benefits from the project. The Kariba Dam in Zambia, partially financed by an $80 million IBRD loan in 1956, and the Volta Hydroelectric Development project, partially supported by a 1961 $47 million IBRD loan, are examples.

More currently, a large hydroelectric dam project on the Sinu River in Colombia, known as Urra II and under discussion in the IBRD and IDB over the last four years, would raise similar water quality concerns. The Colombia project was recently deferred for financial reasons. During the planning process, the IDB has estimated that 20 percent vegetation removal from the reservoir basin would be adequate, although water quality problems would remain.

The MDBs and the international civil engineering community are aware of the problems which can occur when vegetation is not removed from a reservoir, but the cost of the undertaking

in remote areas sometimes encourages running some risks with the expectation that the body of water will be purified as time passes.

A second problem associated with impoundment projects is siltation. If the watershed surrounding the river system feeding a reservoir is not protected, there is a severe risk that the heavy rains often occuring in tropical regions will lead to soil erosion, carrying sediment into the reservoir and turning an impoundment into a large mud puddle. The useful life of hydroelectric generating facilities can be drastically curtailed, unless an expensive investment in dredging the reservoir is undertaken. An appropriate mitigatory measure is to ensure that land use in the river basin is limited to activities that retain vegetation which holds the topsoil. Selective forest industries, appropriate agro-forest industries, or preservation in national parks or forests are uses that can provide effective watershed protection.

Siltation has shortened the effective life of some dams, but has more frequently led to costly efforts to offset negative effects. The classic case is the 1953 $3.5 million IBRD loan for the Anchicaya hydroelectric dam in Colombia. The dam was virtually unusable because of siltation only seven years after completion and has since been abandoned.

In more recent years, projects have continued to be put forward for funding without provisions to ensure adequate watershed protection. Although the severity of the problem is often acknowledged through the inclusion of a requirement for the future formulation of a watershed protection plan, such a plan is rarely in place prior to project approval and is frequently delayed, risking the productivity of the project.

The 1979 IDB loan to finance construction of the Paute hydroelectric dam in Ecuador recognized a severe siltation problem which would render the facility unusable in about seven years if unaddressed. The plan in 1979 was to build a

dam upstream with a larger reservoir capacity to trap the silt. Construction of the Paute dam has not yet been completed, but plans for the upstream dam appear to have been shelved. A 1984 IDB project to finance several elements of hydroelectric production in the Dominican Republic, including the Tavera dam, required the development of a watershed protection plan during dam construction, but land acquisition may be a problem. The risk in a significant delay in formulation and implementation of the watershed plan is that current siltation levels would lead to interference in electrical production within twelve years of dam completion.

A third set of problems associated with impoundments has been the severe effects on human health and well-being from some projects. The still waters associated with reservoirs are often ideal breeding grounds for the snail that acts as the intermediary host for the shistosomiasis bacteria. Since the disease affects some 250 million people in the tropics worldwide, its incidence ought to be a systematically examined aspect of dam planning. Onchocerciasis, or river blindness, has also been associated with dam construction in the tropics. Measures to control the incidence of these diseases require planning and steady application; cures are uncertain and expensive.

The IBRD and AFDB supported the Nangbeto dam project in Togo which was approved in 1984 and was expected to yield an increase in the incidence of shistosomiasis. While a study of health needs was included in the project proposal, completion of such studies prior to project approval would have been preferable with the needed mitigatory measures identified and necessary funding included.

A second major effect of dam projects on human well being is the requirement to resettle the inhabitants of areas to be flooded by creation of the reservoir. Such resettlement -- typically of small rural farmers and often of ethnic or cultural minorities -- can be socially and politically disruptive unless

planned and executed with care.

In March 1985, the IBRD Board approved the first of several projects for the water development of the Narmada River Basin in the west of India. More than 150,000 persons -- many minority group members -- will require relocation. Bank and Indian Government planning for relocation has been extensive. However, available information suggests that provisions to deal with those who own no land -- a sizable portion of the population -- may not be adequate; the provisions consist of a requirement that the state governments find suitable employment. Press reports this summer indicate continuing severe unrest related to the treatment of the minority groups to be displaced. In the El Cajon dam project in Honduras, supported by the IBRD and IDB, relocation was delayed for four years and the approximately one thousand families were finally moved about one year ago -- only days before the dam was to close and the reservoir began filling.

By contrast, in the IDB-supported Colbun-Machicura dam in Chile, the purchase of land from and resettlement of approximately 100 families was well underway at the time of project approval in 1984 -- an example of the kind of approach we would prefer seeing.

Penetration roads into relatively undeveloped areas are typically evaluated in MDB loan proposals on the basis of economic savings to those who use existing transportation system. Estimates of future use rarely assume significant changes in economic activity. By contrast, experience suggests that penetration roads will often ignite spontaneous migration from other parts of a country which can lead to substantial agriculture, forestry or other economic activities, often inconsistent with sustainable resource use. When such situations are likely, a more elaborate regional planning strategy, encompassing the full range of economic and social sectors, is needed -- and may yet fall short of rational

resource use in the absence of full participation by the public and private interests afffected by in the project. In 1984, there were 13 projects with approximately $425 million in MDB financing which were primarily designed to open new areas. The 1984 total may not be typical of past years since a substantial proportion of transport sector commitments was allocated to maintenance of existing road systems.

The IBRD supported road through the state of Rondonia in Northwest Brazil, with which this Committee is very familiar, and the IDB supported road project in the neighboring state of Acre are projects where severe problems were anticipated and, indeed, have already arisen. In both cases, while the potential problems were acknowledged at the time of project approval, substantial doubts about successful implementation remained and, in retrospect, should have been heeded. Implementation of needed agriculture, forestry, health and Indian protection measures should have preceeded road construction by several years to cope with the pressures from the population influx.

Agriculture and rural development projects raise a range of natural resource use and human health issues: top soil management, irrigation projects associated with water-logging, salinization and the spread of water-borne diseases, and pesticide use that exceeds the farmer's training in safe application. Agriculture represented about 40 percent of total MDB lending in recent years. While all agriculture projects do not involve environmental issues, the frequency is high and the institutional capacity of borrowing countries to manage the issues is often unaddressed.

The series of "transmigration" projects in Indonesia over many which are designed to resettle farmers from densely populated Java and Bali to the outer islands have been supported most recently by a June 1985 $160 million IBRD loan and an

October 1984 $60 million ADB livestock project. The fundamental problem with the transmigration effort is that agricultural practices used in the rich volcanic soils of Java tend to be transferred with the settlers to the poor soils of the outer islands. Since the soils are poor, the farmer clears a new plot when yields drop and leaves barren ground behind. The resulting deforestation and soil erosion has substantially reduced the productivity of substantial tracts in the outer islands. The projects have also sometimes involved the removal of ethnically distinct minorities from lands where traditional agricultural practices, hunting and gathering permitted a sustainable economic system.

The IBRD transmigration project was primarily for soil mapping and should lead to an information base that may provide far better policy guidance in the future. The ADB project financed draft livestock which will likely be used for annual crop production -- an inappropriate land use in most parts of the target island of Kalimantan.

An August 1984 $150 million IBRD loan to the Philippines to finance needed imports included substantial amounts for pesticides. By coincidence, in September, a researcher from the International Rice Institute in Manila testified before a Congressional committee regarding the correlation between the twice yearly application of pesticides in a rural area of the Philippines and sharp upswings in the incidence of serious illnesses among working age males in the area. The safety procedures used in pesticide application are thought responsible. In any case, the loan proposal did not include any discussion of the adequacy of pesticide training through the Philippine agricultural extension service.

While a fair number of MDB-supported irrigation projects have been associated an increased incidence of water-borne diseases, such as shistosomiasis, the IBRD in 1984 reported on an already completed 1977 project in Morocco which was

associated with a decline in the incidence of this disease because the irrigation canals were covered and the snail intermediary vector was cut off from feeding on vegetation along the canal banks. The construction technique, while expensive, had the added benefit of reducing water loss from evaporation in the dry Moroccan climate.

Is there an institutional problem in the MDBs?

The Treasury Department has been troubled by the environmental aspects of loan proposals sufficiently frequently to conclude that a problem exists. Almost invariably, MDB project staff are familiar with the nature of these environmental problems and with their incidence in various parts of the world. The MDBs generally have favorable salary structures and recruit widely to obtain quality staff. Staff training, while valuable to ensure broad understanding throughout the institution, and additional staff, while in instances appropriate, do not seem to us the principal needs.

Occasionally, we are told that borrowing governments resist environmental measures in projects and the MDBs can not force borrowers to do what they do not want to do. While these conditions may hold on occasion, it seems to us that at least some elements of borrowing governments are frequently charged with specific responsibility for environmental protection and that these elements, if brought into the project preparation and implementation process, would usually be quite supportive of appropriate environmental components in projects. The MDBs could often ask such agencies to implement project components in borrowing countries. Thus, this argument, while possibly valid at certain times and certain places, would not seem to justify accepting the performance in development projects that we are seeing.

The problem seems to us to lie in another direction. The Administration's 1982 assessment concluded that the MDBs tend to overemphasize the quantity of lending rather

than the quality. We suspect that the problems encountered in the envronmental aspects of projects may be an instance of such an overemphasis. If environmental considerations threaten expeditious project processing, the environment is assigned low priority and is left to be dealt with later.

The notion that a hydroelectric dam would be presented to an MDB Board without completed engineering plans would be unacceptable. Yet, we frequently are asked to evaluate loan proposals for our Executive Directors where the watershed protection plan remains to be studied. If such a study were to reveal that land acquisition or zoning would be difficult to implement and the dam is already under construction, financial resources may well be wasted because of unaddressed siltation problems. On the other hand, if construction had been delayed, the financial resources could have been shifted to other, more effective uses -- or simply saved. Financial targets of the MDBs might not be met, but development would be sustainable.

A similar point could be made regarding the desirability of adequate multi-sectoral regional planning -- and the possible delay in lending -- in the cases of penetration roads and agricultural development. In the case of agriculture, it seems essential that research and extension services be capable of addressing the environmental risks before the introduction of production technologies which sharply alter land, water and pesticide use. Without effective services, the risk to natural resources and human health seems high in many projects.

During the last two years, we have endeavored to inform MDB Managements and other Board members when we believed that projects included seriously deficient environmental aspects. We have reviewed projects submitted for Board approval, consulted with MDB staffs regarding project details, discussed particularly severe problems with senior

management and, of course, brought to attention of others the public discussion which has been taking place in the United States.

We have not opposed most loans, if proposals were otherwise satisfactory, in the belief that MDB Management and other Board members should be given an opportunity to reflect on the problems that are coming to light in public and in the confines of the Board room.

The Next Steps

Our country's experience with the examination of environmental issues as part of the investment planning process suggests that initially public and private institutions resist the methodical requirements. As the value of these methods to anticipate and plan for potential problems has become clear, resistance has diminished.

The MDBs already use extensive project planning techniques in their operations. Environment considerations could be systematically incorporated into MDB planning relatively easily -- and often are. The conspicuous absence of environmental considerations in some projects and the inadequate treatment in other projects has been the central problem. Our conclusion is that projects in environmentally sensitive sectors should only be accepted if environmental aspects have been thought through and if the mitigatory measures necessary for sustainable development have been identified and any necessary funding assured. Were this principle observed, I believe we would find far less dissatisfaction with MDB performance in this area.

We see some progress but it is not enough. Your efforts, Mr. Chairman, have encouraged the World Bank to give high level attention to the difficulties in the implementation of the Northwest Brazil projects. Your Committee and other Committees of the Congress have brought attention to steps that might be taken to strengthen institutional management.

Public groups in the United States and in other countries have expressed their views.

I believe these broadly based expressions of concern are beginning to have an effect and that senior Management in the MDBs is beginning to look seriously at what steps might be taken to address the problem. The suggestions that this Committee may offer, that we have put forward, and that others may advance may be useful to MDB Management when specific steps are examined to strengthen project development and implementation. We believe they should be weighed carefully.

Thank you, Mr. Chairman.

CHANGES IN MDB ACTIVITIES IN BRAZILIAN PROJECT

Senator KASTEN. Mr. Mulford, thank you for your statement. When the Secretary of the Treasury appeared before this committee in his annual appropriations report, he brought these issues up. I have also discussed these issues with the former Secretary of the Treasury. It seems to me that now we have to continue to coordinate activity with the various multilateral banks.

What do you think should be done now? We are in the middle of this project in Brazil; and it strikes me that this is a project that the bank never should have gotten into. But now that they are into it, and some would say, have made a mess of it, what should be done from here?

Mr. MULFORD. I think the general question really should be answered first, and that is, what should be done in this area next. I think we should bear in mind that our efforts in this area are still relatively new. I mentioned in my testimony some of the things that the banks have done. We have been working more closely with the banks in recent times, trying to stress the importance of these areas of concern. As you know, it takes a little time in organizations like the MDB's, not only in this area, but in practically any area I can think of, to come to terms with new ideas, and then begin to implement them.

The progress has been a little uneven. I think the World Bank has in some ways been less responsive than the others up until now. We think the thing to do is to keep going on the present path, and continue to push them to take steps to improve their organizational capability to deal with the problem.

As to the specific question that you mentioned, I think progress has been made with the Brazilian Government in bringing them to realize the importance of this issue. The World Bank has again begun to fund its operations in that area. Our view has been that we would look very carefully at each stage and that we would encourage a closer liaison be-

tween yourselves and the banks on this question, particularly the Brazilian one, which I know you are very much on top of, to see whether, as the project continues, the standards can be substantially improved.

RECOMMENDATIONS TO TREASURY FROM HOUSE BANKING COMMITTEE

Senator KASTEN. Last year, the House Banking Committee made a number of recommendations about how the multilateral development banks should change their staffing and their lending policies. Treasury was also directed to make several changes and to work with the multilateral development banks to make these necessary changes.

You are familiar, I think, with the House Banking Committee recommendations. Can you tell us what progress has been made so far, and what you are doing at Treasury, both to follow up on changes that have taken place in Treasury, and also what you are doing at Treasury to follow up on some of the changes and recommendations that were made on the staffing of the multilateral development banks?

Mr. MULFORD. Most of the recommendations, of course, have been forwarded to the organizations in question, and some of them have been implemented. For example, the African Development Bank has hired, as I said, an environmental specialist. The Inter-American Development Bank has put in place its committee on the environment which, as I said, is supposed to be wired into the evaluation and the execution of loans, bringing the environmental factor to bear on that process. The IBRD, where there has been an environmental office or an office of the environment for some time, has been looking at the question of staffing. We have found that their response so far has been rather modest, we haven't heard much back from them yet, but we know that one of the issues there is whether they go out and look for new staff, or try to find from their multitude of employees people that they can bring more actively into the environmental area.

There were also suggestions made, for example, about training in the Economic Development Institute of the World Bank. Those suggestions are still being evaluated in terms of the course structure that is offered there, and there have not been concrete changes made.

As regards the suggestion that there should be some criteria developed by the Treasury Department on which we base opposition to loans, we have felt that it is better not to develop a set of criteria at this time to use actively for the opposition of loans. It is too much a case-by-case situation to be effectively approached from that angle.

We also didn't feel that the suggestion that was made for an annual report was particularly constructive because this would lead, we think, to a lower level treatment of the subject, with vast amounts of data put together, and sort of a form exercise instead of what we think is required, which is an active day to day following of this situation.

I might say, in the Treasury, we have one full-time person involved in this, and four or five staff people who work with him. More importantly, I would point out that environmental measures for considera-

tion in important loan transactions do come to my desk. I look them over, and of course I can't do that in too much detail because I am not a loan specialist. The point is that the issues that involve environmental questions are brought to my level for consideration before a vote is taken.

ACTION TAKEN BY INTER-AMERICAN DEVELOPMENT BANK

Senator KASTEN. You referred to the Inter-American Development Bank, and you said that they have taken steps. It seems to me that the steps that they have taken with their environmental committee to strengthen their in-house expertise on the environment, have been positive ones.

I assume you agree with that, but is this starting to make a difference? Do you see a change as a result of that committee with the Inter-American Development Bank?

Mr. MULFORD. I think, to speak frankly, it is a little too early to tell whether this has made a difference. Obviously, our hope is that, given a little time, the bank administrative process, the way in which the loans are evaluated and implemented, will become more sensitive to the presence of this committee. This will be most effectively carried out if we, particularly at my level in Treasury, instruct the U.S. Executive Director in that organization to make sure that that committee is listened to, and its views are taken into account when loans are being prepared and put into effect.

I think you need a little time for a track record to be built up, for experience to be built up, for the sensitivities on the part of the other officials in the bank to be realized, and gradually to sort of bring them into the process so that you get a more effective working relationship on this question.

ADDITIONAL BANK PERSONNEL HIRING IN REGIONAL OFFICES

Senator KASTEN. In last year's appropriation bill, the Treasury Department was directed to encourage MDB's to hire additional environmental professionals in their regional offices. That suggestion specifically pointed out the need for increased expertise in environmental science in the World Bank's regional staffing.

We understand that the response from the World Bank has been less than satisfactory. Can you tell me what the Treasury Department has done to follow up on the suggestion that more environmentally trained personnel be hired by the bank, and that those personnel have a place at the regional level?

Mr. MULFORD. First of all, I might say that in dealing with the World Bank, often it isn't just an issue like this but there are a lot of issues that it takes them, in my opinion, far too long to come back to us in general. So this is just another one of these issues.

The issue in question is one that we have been waiting for a substantive response. We have made our input to them. I think it was in April that we took the matter up with them. We have yet to have any kind of firm response. Lacking a firm response from the World Bank, I would not want to try to respond on their behalf on this issue.

I will say, on the question you raise about regional people, it may be that within a large structure like that, the answer to increasing awareness on the part of regional level officials on the environmental question is more effectively attacked by your training mechanisms, where you instill this concern gradually, over time, into all of your regional officials, rather than have environmental specialists attached to each office, with the prospect that they might very well be seriously underemployed in certain places or at certain times.

Anyway, I think the loan process might be more effectively carried out with environmental factors in mind if the loan officers themselves become more aware of environmental issues. Instead of having an expert off to the side who is kind of beating on them all the time, I think it is better to gradually instill in those people a better knowledge of this issue so that you have a more effective loan officer in general.

I don't want to answer the question for them, as we haven't heard anything firm yet, we don't know what their approach is going to be.

That is one of the reasons that we are looking at the course changes that are under discussion in the training institute, because that is a way to get at the problem on a long-term basis.

FUNDING FOR MULTILATERAL DEVELOPMENT BANKS

Senator KASTEN. I appreciate, first of all, your support of what we are trying to do, and we want to work with you. I know there are people from the World Bank and from the other multilateral development banks in the room. The fact is that we are about to mark up a bill in subcommittee that is probably going to be part of the continuing resolution. The Congress has decided that this is an issue of critical importance. The Treasury has decided that this is an issue of critical importance.

You and I know, and most people in this room know that it is tough these days to get funding for multilateral development banks. It is not the easiest money in this appropriations bill anyway. I think the lack of adequate response will put the funding for the multilateral development banks, including the World Bank, at jeopardy if they are viewed as not responding to a strongly held concern in Congress. Especially with the administration working arm in arm with the Congress, I think that their funding is going to be at jeopardy.

We look forward to working with you, and we look forward to working with the leadership of these various multilateral development banks in trying to work for the change that I think all of us recognize is long overdue.

I don't know if you have any further comments. I have a couple of other questions. I know you are on a timetable. If you have any further comments, please.

Mr. MULFORD. I would like to comment on what you have just said briefly.

First of all, you may be assured, Senator, that we in the Treasury are very much aware of the problem, and we are working on it with the

banks. As I said before, they are not always as politically sensitive or responsive as you might wish them to be, and we find the same problem from time to time.

On the other hand, we have to bear in mind that these are important international institutions that are carrying out very important, broad-based tasks, to which the United States has made major commitments for funding. I feel very strongly that while we must keep at them on this environmental issue, we must also take into consideration the commitment of our Government to these banks and the need to honor the commitments that we have made internationally to these organizations to meet our funding requirements, and so on.

While I can be sensitive to your desire to bring greater pressure to bear, and obviously funding is an important element here, we do have to bear in mind the balanced approach, because we have commitments for funding that are based on the broader functions of the organizations today. I would just leave that thought with you.

Senator KASTEN. I don't want to belabor the point. I understand and I agree with you. As you know, the Congress decided, in the case of the soft loan window of the World Bank, to change the set. We ended up funding at $750 million each year, as opposed to $1.2 or $1.1 which the administration had requested.

I think that it is clear, when we are dealing with very, very difficult appropriations matters, we are squeezed in this account, that the lack of response by some of these organizations is going to lead to funding changes.

Let me thank you, first of all, for being here; second, for your statement and your support of what we are doing. I understand that you have to leave. I also understand that Mr. Jim Conrow, who is the Deputy Assistant Secretary for Developing Nations, will remain behind in case there may be further questions later as a result of the panel discussion that we are about to have.

I would, if I could, just to get off this subject for about 30 seconds and go to another concern. I simply want to make a statement to you on matters that are not related to the afternoon's hearing, but which you need to know as a result of things that are going on right now, and a statement that I would like you to take back to Secretary Baker. The positions I express are, frankly, unequivocal.

ADMISSION TO ASIAN DEVELOPMENT BANK BY PEOPLE'S REPUBLIC OF CHINA

This subcommittee will not accept, as part of the agreement for the People's Republic of China's admission into the Asian Development Bank, a name change which is unacceptable to Taiwan. If they accept a name change, in the opinion of the committee, it must be without undue pressure, and one that is freely accepted by Taiwan.

I want you to know that I raised this issue at breakfast with Secretary Shultz last week. Senator Inouye was with me, and he and I were in agreement.

Second, and now I am talking only as chairman of this subcommittee, when you go off to Seoul for the Annual World Bank and Fund meeting, I hope you understand that there is no support for increased funding for that institution, and no commitment should be made to that effect. We have to develop a consensus here, and the current funding levels are about as far as we can go.

I wanted to make those two statements because those are concerns that the committee has had. With the opportunity of having you before us, I simply wanted to make those statements.

I want to thank you, first, for being here; and, second, for your very strong statement in behalf of the goals that we all share. Thank you very much.

Mr. Mulford. Thank you very much for having me.

NONDEPARTMENTAL WITNESSES

NATIONAL WILDLIFE FEDERATION

STATEMENT OF JAY HAIR, PH.D., EXECUTIVE VICE PRESIDENT, NATIONAL WILDLIFE FEDERATION

ACCOMPANIED BY:

BARBARA BRAMBLE, DIRECTOR, INTERNATIONAL PROGRAM FOR THE NATIONAL WILDLIFE FEDERATION

BRUCE RICH, NATURAL RESOURCES DEFENSE COUNCIL

INTRODUCTION OF WITNESSES

Senator KASTEN. Now we will have a panel of Dr. Hair, Dr. Maybury-Lewis, and Mr. Olson.

We will begin with a brief statement from each of you, and then we have some questions that may be addressed to one or more of you. You all might want to respond to someone else's question as well.

We will begin with Dr. Jay Hair, executive vice president of the National Wildlife Federation. It is a pleasure to have you appear before our committee.

Dr. HAIR. Thank you, sir. It is pleasure being here.

I will briefly summarize my testimony and ask that my full statement be entered into the record of this hearing.

Senator KASTEN. Without objection, so ordered.

Dr. HAIR. Thank you.

In addition to the National Wildlife Federation, the Nation's largest private conservation organization, with over 4½ million members and supporters, I am speaking today on behalf of five other organizations: the Natural Resources Defense Council, the Environmental Policy Institute, the Environmental Defense Fund, the Friends of the Earth, and the Isaac Walton League of America.

With me here today are Barbara Bramble, the Director of the National Wildlife Federation's international program, and Bruce Rich of the Natural Resources Defense Council. They are all available, Senator, for questions if it is desired.

RECORD OF MULTILATERAL DEVELOPMENT BANKS IN BORROWING NATIONS

Mr. Chairman, I speak for organizations that are dedicated to the wise use of natural resources. We believe that appropriate use and management of natural resources is essential to sustainable development and is not a luxury. This is just as true in the developing countries as it is here in the United States.

Multilateral development banks often fund ambitious projects which, due to unsound natural resource management, may have serious environmental ramifications. They wield a powerful influence over the development plans of the borrowing nations, and often shape lending priorities of other aid agencies and commercial banks. As a result the policy changes by the MDB's to promote sound natural resource management would have a multiplier effect throughout the international lending community.

ENVIRONMENTAL PERFORMANCE OF MDB'S

As you know, Mr. Chairman, over the last 2 years, a great deal of congressional and public attention has been focused on the environmental performance of the MDB's. Although this attention has resulted in some changes in their attitude, the banks have failed to address adequately the grave problems associated with many of their projects.

First, there has been a general resistance on the part of the MDB's to discuss their policies and programs with environmental organizations here and in the borrowing countries. Recently, however, there have been some positive indications that the banks are more willing to communicate with the public. These are welcome changes, and we hope that that attitude will continue.

MDB LOAN DISBURSEMENT PROCEDURES

My second point this afternoon involves MDB loan disbursement procedures. Unless loan disbursements are more stringently conditioned on proof of sound environmental management, environmental problems will occur which could have been avoided with proper planning.

POLONOROESTE PROJECT IN BRAZIL

A case in point is that of the Polonoroeste project that you mentioned in your opening statement, Senator. Funded in part by the World Bank, the project ignited widespread international outrage due to its senseless tropical forest destruction and invasion of indigenous people's lands.

Last spring, as a result of the attention focused on the project, the bank took the major step of temporarily halting disbursements. This has resulted in the implementation of some needed mitigation measures by the Government of Brazil. We appreciate and encourage those actions, although we feel they acted primarily as damage control. Had there been more rigorous environmental review for this project in its preplanning stage, and had implementation of mitigation measures been a condition of loan disbursement, much of the destruction could have been prevented.

IDB STEPS IN LOAN DISBURSEMENTS

The Inter-American Development Bank has also taken some positive steps regarding loan disbursements. Yet, these measures are still inadequate. In approving funds for the extension of the Polonoroeste project, the IDB has insisted on the development of a plan of action before

road construction can begin. However, the bank has not ensured that the plan will be implemented before the road is completed.

One of the major recommendations made by the House Banking Committee, in its report on this subject last year, was that the World Bank would "provide a prototype for improved MDB performance in handling environmental issues by increasing environmental staff and devoting more time to monitoring environmental impacts of the bank's projects."

Despite congressional urging and that of conservation organizations, the World Bank has yet to incorporate an environmental office in each of its six regions. The responsibility for reviewing their over 300 projects per year falls upon its one small central office.

The Inter-American Development Bank claims that its staff weighs environmental issues for each project against a checklist of criteria, yet we see no evidence that this is occurring in a systematic way.

We view current MDB activities around the world as an indication of the seriousness of the institution's intent to implement policy changes. It is critical that they refuse funding for such destructive projects as the Polonoroeste projects in the future. Yet, we find that the World Bank, as well as the Asian Development Bank, has approved continued funding for a transmigration scheme in Indonesia. This program is another potential disaster for it poses all the problems typically associated with deforestation and farming of tropical soils.

Similarly, the IDB has funded an extension of the disastrous Polonoroeste project in Brazil.

PROTECTION OF GLOBAL NATURAL RESOURCES IMPERATIVE

Mr. Chairman, the time is running out for our global natural resources. The 5 million members and supporters that I represent here today are convinced of the urgent need for concrete and substantial change in the policies, procedures, and staffing of the multilateral development banks. It is imperative that these institutions systematically conduct environmental impact reviews before approving project loans to ensure that needed modifications be made in projects to guarantee their environmental sustainability.

The MDB's need to fund smaller scale renewable energy projects, an area that they have conspicuously neglected and continue to neglect. We urge Congress to help us find more effective ways for allowing sensible, useful, public input, especially in borrowing countries, prior to project approval. Congress should demand that MDB's institute the recommendations made by the House Banking Committee, and that MDB loan disbursements be conditioned on the borrowing country's compliance with environmentally sound practices.

Thank you, sir.

[The prepared statement of Dr. Hair follows:]

NATIONAL WILDLIFE FEDERATION

PREPARED STATEMENT OF DR. JAY D. HAIR

EXECUTIVE VICE PRESIDENT

Mr. Chairman and Members of the Subcommittee:

I am Jay D. Hair, Executive Vice President of the National Wildlife Federation - the nation's largest private conservation organization with over 4.5 million members and supporters. I am speaking today on behalf of five other conservation organizations: the Natural Resources Defense Council, the Environmental Policy Institute, the Environmental Defense Fund, the Izaak Walton League, and Friends of the Earth. Together, our organizations represent nearly 5 million members and supporters nationwide.

I appreciate this opportunity to appear before this subcommittee to testify on the environmental impacts of projects funded by the Multilateral Development Banks (MDBs). We would like to thank you, Mr. Chairman, for your leadership in promoting improvements in the environmental performance of the MDBs. Your firm report language in the FY '85 Foreign Assistance Appropriations and Supplemental Appropriations bills, and your initiative in opposing the grave natural resources destruction resulting from a World Bank project in Brazil, have played an extremely important role in focussing Congressional and public attention on these issues. Your office was also instrumental in promoting two meetings this year between high-level World Bank officials and representatives of conservation and indigenous peoples' organizations.

Mr. Chairman, I speak for an organization that is dedicated

to the wise use of natural resources. We believe that appropriate use and management of natural resources is essential to sustainable development and is not a luxury. This is just as true in the developing countries as it is here in the United States.

Context of These Hearings

Multilateral Development Banks often fund ambitious projects which, due to unsound natural resource management, may have serious environmental ramifications. Tropical deforestation, whether as a result of road construction, hydroelectric development, or agriculture, usually leads to severe erosion and pollution of water systems. The secrets to sustainable forest development may lie with the forests' native inhabitants, but as indigenous peoples' are threatened with extinction, so are their ancient cultures and forest knowledge.

Conservation and indigenous peoples organizations are concerned about these occurrences, and we look to the MDBs to initiate needed changes in the development policies of borrowing nations. This is an important role for the banks; once funds have been committed by an MDB for a specific project, additional monies are contributed by other aid agencies and private banks. Total development funds generally represent roughly three times the amount approved by the multilateral institutions. Thus the MDBs wield a powerful influence over the development policies of the borrowing nations. We are here today to urge Congress to press for further changes in MDB policies and programs precisely because of their influence over the decisions of governments in developing countries.

As you know, Mr. Chairman, over the last two years the Congress, Treasury Department, and a number of national environmental organizations have focused attention on the environmental performance of the Multilateral Development Banks.

In addition to appearing before this Subcommittee, we testified last year in hearings held by the House Banking Subcommittee on International Development Institutions and Finance. These hearings resulted in a Committee report, which outlined 19 recommendations to multilateral banks and other agencies on sustainable development, and was endorsed by the U.S. Treasury Department.

Although these pressures have resulted in some signs of change in the attitudes of the MDBs, the banks have failed to address adequately the grave problems associated with many of their projects. We must reiterate and emphasize the urgent need for concrete signs of reform in environmental policy, staffing and organization within the international lending institutions, as urged by the Congress and by environmental organizations in prior hearings.

Access to Project Information

In the past, there has been a general resistance on the part of the MDBs to discuss their policies and programs with environmental organizations. The secrecy surrounding project information has made it difficult for these organizations to express their concerns to bank staff. Recently, however, there are some positive indications that the banks are more willing to communicate with the public and to implement change.

In two meetings held this year, high-level officials of the World Bank have discussed Bank policies with representatives of our organizations. We were able to express concerns regarding specific areas such as deforestation, river pollution, and demarcation of Indian lands and national forests. The Inter-American Development Bank has also indicated a recent willingness to discuss some of their policies with us, briefing representatives of the U.S. Treasury Department and the National Wildlife Federation two weeks ago on several of their projects in Latin America.

These are welcome changes and we hope they will continue, for in the past MDB attitudes have stymied the efforts of concerned governmental and non-governmental organizations to share their expertise with the banks.

Loan Disbursement Procedures

An important factor in project planning is bank policy regarding loan disbursement procedures. Generally, the banks have approved loans and allowed development of infrastructure before requiring implementation of environmental and other mitigation measures. Unless loan disbursements are more stringently conditioned on proof of sound environmental management, environmental problems will occur which could have been avoided with proper planning.

A case in point is that of Polonoroeste, the Brazilian government's "rural development" project in the northwestern state of Rondonia. This project, funded in part by the World Bank, ignited widespread international outrage due to its senseless tropical forest destruction and invasion of indigenous peoples' lands. The World Bank had originally imposed loan conditions designed to curb these expected results, but it failed to enforce the loan requirements in the face of the difficulties of project implementation. Last spring, in an unprecedented move and as a result of attention focused on the project, the Bank took the major step of halting disbursements.

In recent months, there have been signs of improvement in Rondonia. The Brazilian government has, by presidential decree, demarcated over 1.8 million hectares of land as National Forest and Indian Reserve. It has also installed a forest police battalion which patrols the demarcated lands for loggers, settlers and other trespassers. We appreciate and encourage these actions, although we feel they act primarily as "damage control."

At the moment, deforestation in Brazil continues, as settlers travel to Rondonia hoping to farm land that is, by and large, unsuitable for agriculture. When the farmers' crops fail, they travel deeper into the forests to repeat their attempts. Ranchers move cattle onto the cleared land where they are sustained for a few years until the land is finally, and often irreversibly, depleted. If present trends continue, Rondonia could be bare of forests as early as 1990. Had there been a more rigorous environmental review of Polonoroeste in its pre-planning stages, and had implementation of mitigation measures been a condition of loan disbursements, this could have been prevented.

The Inter-American Development Bank has also taken some positive steps regarding loan disbursements, yet these measures are still inadequate. In approving funds for an extension of the Polonoroeste project from Rondonia into the neighboring state of Acre, the IDB has insisted on development of a Plan of Action before road construction can begin. However, the Bank has not yet taken measures to ensure that the Plan will be implemented before the road is completed and settlers pour into the pristine forests of Acre. This Plan of Action is due soon, and we look forward to a briefing at an early stage by Bank officials as to its contents. We emphasize that planning and <u>implementation</u> of environmentally-protective measures must precede actual loan disbursements for infrastructure and other development activities in MDB projects.

<u>Staffing and Organization</u>

One of the key recommendations made by the House Banking Committee in its report last year was that the World Bank "would provide a prototype for improved MDB performance in handling environmental issues" by increasing environmental staff and devoting more time to monitoring environmental impacts of bank projects.

Despite Congressional urging and that of conservation organizations, the World Bank has yet to incorporate an environmental office in each of its six regions. The responsibility of reviewing their over 300 projects per year falls upon its one small central office. Last spring, the U.S. Director of the World Bank questioned the Bank about hiring environmentally trained professional staff. The Bank's reply was completely unresponsive, a mere acknowledgement of the Director's letter. No course of action by the Bank was even suggested.

The Inter-American Development Bank has published documents on the subject of the environment, such as its "Progress Report on Bank Activities in the Environmental Field" for 1983-1984. The Bank's statements in this and other publications that an environmental review office is not necessary are misleading. It claims that all Bank staff are sensitive to environmental issues, and that the establishment of an environmental office is likely to generate "indecision, confusion, and internal conflict". Theoretically, the idea that all personnel would be trained to address environmental problems is a fine one. The unfortunate reality is that, without a direct line of responsibility by professionals in the environmental field, there is, in fact, no line of responsibility at all.

The IDB claims that its staff weighs environmental issues for each project against a checklist of criteria, yet we see no evidence that this is occurring in a systematic way. We feel very strongly that without the proper professional background, staff members are inadequately trained for environmental review of bank projects. Initially, the IDB claimed that it had 135 professional staff trained in environmentally-related fields. Yet a close inspection showed these members actually to be trained in such things as highway construction, electric energy production and agriculture and urban development, fields that are related primarily in terms of their potential negative impact on the

environment. This attitude is an insult to the extreme importance and relevance of the issue of integrated environmental review in project planning.

Indications for the Future

We view current MDB activities around the world as an indication of the institutions' serious intent to implement policy change. It is critical that they refuse funding for such destructive projects as Polonoroeste in the future. Yet we find that the World Bank, as well as the Asian Development Bank, has approved continued funding of transmigration schemes in Indonesia, most notably in Irian Jaya, on the border of Indonesia and Papua New Guinea. This is the fifth such transmigration project funded by the Bank, a program in which the Indonesian government claims it is attempting to alleviate overcrowding on certain islands such as Java and Bali by resettling several million people on other, less crowded islands.

This project is another potential disaster, for it poses all the problems typically associated with deforestation and farming of tropical soils. A large portion of the world's dwindling tropical forests are found on the islands of Indonesia. Yet as the transmigrants settle on these agriculturally marginal lands, they usually practice cropping techniques developed on the rich volcanic soils of Java and other fertile islands. Their farming practices lead to the same deforestation and erosion problems encountered in Latin America.

A review of recent Inter-American Development Bank activities raises questions about their stated commitment to "help member countries avoid harmful environmental impacts and the higher costs they entail to society." As I mentioned earlier, the IDB has funded an extension of the disastrous Polonoroeste project from Rondonia into the neighboring state of Acre, a tropical forest region that is home to some 8,000 Indians. Despite the Bank's

intentions to require a mitigation plan, the project remains so questionable that, in an entirely unprecedented move, the U.S. voted against funding of the Acre project on largely environmental grounds.

The situations in Indonesia and Acre indicate that our continued concern over development bank activities is well founded. The few instances of change which have occurred are welcome, but they are isolated improvements which may have little effect on the future direction of MDB policy.

Conclusion

Mr. Chairman, time is running out for our global natural resources. The five million members and supporters that I represent here today are convinced of the urgent need for concrete and substantial changes in the policies, procedures and staffing of the Multilateral Development Banks. It is imperative that these institutions systematically conduct environmental impact reviews before approving project loans, and ensure that needed modifications be made in projects to guarantee their environmental sustainability.

We also urge action on the recommendations of the House Banking Committee, especially regarding the inclusion of nongovernmental organizations and organizations of indigenous peoples in pre-project planning, and increased use of appropriate or light capital technology. In particular, we are concerned that the MDBs need to fund smaller scale renewable energy projects, an area that they conspicuously continue to neglect. The banks must halt their funding of large-scale projects that are environmentally destructive, such as agricultural settlement schemes on fragile and unsuitable tropical forest soils.

The expertise of environmental professionals, particularly those from the countries where projects are being carried out, can

be usefully brought to bear only when there is early and open discussion of proposed projects and their alternatives. As in the case of Polonoroeste, large-scale capital-intensive projects can lead to environmental and financial disaster. Yet the potential benefit of the MDBs' development assistance is equally great, given the proper environmental consideration in initial planning stages.

We urge Congress to help us find more effective ways for allowing sensible, useful, public input in order to bring about concrete and substantive changes in the environmental policies of Multilateral Development Banks. Congress should demand that MDBs institute the recommendations made by the House Banking Committee, and that MDB loan disbursements be conditioned on the borrowing country's compliance with environmentally-sound practices.

Thankyou.

Senator KASTEN. I think you will agree that we are making a little progress. As a matter of fact, I think we might even be making history in terms of what we have been able to do in the last several months. We are going to try to concentrate, if we can, especially during the questions, on the positive and what we can do from here.

I think we are, all of us, increasing the awareness and the sensitivity on a whole group of people.

Our second witness on the panel is Dr. David Maybury-Lewis, the president of Cultural Survival. Dr. Maybury-Lewis.

CULTURAL SURVIVAL

STATEMENT OF DAVID MAYBURY-LEWIS, PH.D., PRESIDENT, CULTURAL SURVIVAL

EFFECT OF MDB PROGRAMS ON INDIGENOUS PEOPLE

Dr. MAYBURY-LEWIS. Mr. Chairman, I am grateful for the opportunity to testify before this subcommittee concerning the effects on indigenous people of projects funded by U.S.-supported multilateral development banks.

I am David Maybury-Lewis, professor of anthropology at Harvard University, and I am testifying today on behalf of Cultural Survival, a nonprofit organization of which I am the president.

We work on behalf of indigenous people and under-privileged ethnic groups, which we do in close collaboration with indigenous organizations throughout the world, and with the associations formed to support them in a number of countries.

With the help of this international network, we are able to monitor the effects of programs and projects financed by the MDB's. We are deeply concerned by the widespread assumption that the destruction of the way of life and the environment of peoples in areas targeted for development is one of the unavoidable costs of economic development.

We can, on the contrary, demonstrate that these processes are in no way necessary, and that they often serve to undermine development itself. We wish, therefore, to promote a wider understanding of this principle, so that development programs may be planned and implemented for the benefit of peoples in the areas to be developed and not undertaken at their expense.

We are grateful, Mr. Chairman, for the special interest you have taken in these issues, and particularly for your efforts to improve the awareness and effectiveness of the MDB's in dealing with them. The wording in the fiscal year 1985 Foreign Assistance appropriations and supplemental appropriations bills, as well as your insistence that representatives of the World Bank should meet with indigenous rights advocates and environmentalists to respond to their concerns have demonstrated that these are issues which must be taken seriously at the highest levels.

WORLD BANK PUBLICATION ON ENVIRONMENTAL PROBLEMS

In recent years there have been indications that the MDB's might take indigenous and environmental issues more seriously. Cultural Survival welcomed the World Bank's publication, "Economic Development and Tribal Peoples: Human and Ecologic Considerations," that dealt specifically and sensitively with these questions.

Our organization was also encouraged to learn that the World Bank had adopted policy guidelines that required it to protect both indigenous peoples and the environment from the adverse effects of its projects.

POLONOROESTE PROJECT

Indeed the World Bank's efforts on behalf of the indigenous people in the area of the Polonoroeste project in Brazil have resulted in the land of some Indian societies being demarcated and protected. Since then the Inter-American Development Bank has also indicated that it intends to be sensitive to the rights of indigenous peoples and to the needs of the environment as it undertakes the financing of the Brazilian Porto Velho to Rio Branco Highway, which is essentially a continuation of the Polonoroeste project.

Nevertheless there is still cause for grave concern. Not only is the past record of the MDB's in these areas indefensible, but they continue to make similar mistakes, in spite of their policy documents and their assurances that they now take these issues seriously. The World Bank, for example, has had plenty of opportunity to learn from the difficulties of its past projects.

PHILIPPINE PROJECTS

In the 1970's the bank made massive loans to promote rural development in the Philippines. Its strategy depended on the implementation of land reform, together with a nationwide program of rural credits designed to help smallholders to take part in the green revolution.

At the same time, it financed the construction of large dams to provide water for irrigation. But the Philippine authorities never carried out the land reform, and without it the rural credit system served merely to bankrupt farmers and impair the financial stability of rural banks. Meanwhile, the irrigation projects produced similarly disastrous results. They uprooted smallholders, poor Filipinos and tribal peoples, known in the Philippines as national minorities, alike.

These people were not properly resettled or compensated because those aspects of the program were inadequately implemented or not at all. Where resettlement did take place, the Ministry of Agrarian Reform made it impossibly difficult for the uprooted to gain title to their new land. In the absence of such title, they were ineligible for rural credits.

The result of all this effort and a decade of investment in Philippine rural development was the exact opposite to what had been the original planners' stated intentions.

A consultant for the World Bank, writing in 1981, stated that the rural development strategies financed by the bank had failed to provide meaningful benefits to those rural Filipinos most in need of them. He added that the circumstances of most rural Filipinos were continuing to worsen, and that the trend appeared to be irreversible. There is little doubt that this development disaster has contributed in large measure to the current economic and political instability of the Philippines.

As a result of the Philippine program, the World Bank has had a decade of experience with a government that did not implement the socially critical elements of bank approved development strategies and whose relocation program led to dispossession of tribal and nontribal peoples, their impoverishment and the destruction of their ways of life.

WORLD BANK FINANCING OF DAMS IN INDIA

Only a few years later, the World Bank was contemplating the financing of large dams in India, where once again thousands of people would be uprooted and relocated. Bank staff members and consultants warned that India did not have a good record where such relocations were concerned. Indeed, reports emanating from India itself made the same point.

In "The State of India's Environment: 1982," it was stated that the construction of dams had "effectively resulted in a direct assault on the country's tribal population," since the people uprooted were normally tribal populations or others who were relatively powerless within the political system.

The same report went on to state that the treatment of the dispossessed was deteriorating over the years and that people uprooted by the most recent projects, such as the Srisailam, Pong, and Sabarnarekha

dams or the Kali hydroelectric scheme had been "made into refugees in their own land."

NARMADA RIVER BASIN PROJECT

The World Bank decided nonetheless to finance dam construction in the Narmada River Basin, a project which will inundate the ancestral lands of over a million people in 220 villages in the States of Gujarat, Madhya Pradesh, and Maharashtra.

A project on this scale requires an extraordinary care in the planning and monitoring of resettlement if it is not to turn into a gigantic human disaster. Yet, the preliminary reports from the areas affected are not encouraging. The World Bank has laid down conditions for the proper resettlement, including land-for-land compensation, to avoid the notoriously pauperizing effect of the cash-for-land systems used previously in India.

Earlier this year, however, the State of Gujarat was insisting that it could not resettle tribal populations on government lands and was, therefore, compensating the earliest evacuees with cash. In many cases, the people so compensated attempted to buy land elsewhere, but since they had little understanding of mortgages and land titles, they were cheated out of their money, ending up with neither land nor funds.

Meanwhile, the agencies of the state government work consistently against the tribes people. Its bureaucracy frustrates them and creates anomalies for them, such as giving them some land holdings miles apart, which they cannot properly supervise. It insists on distinguishing between lands that tribespeople have traditionally owned and those that they have always worked, and offering compensation only for the former. In other words, only for a fraction of their holdings.

Above all, the state government has shown a callous disregard for the needs of the communities, insisting instead on dealing with people as members of separate and separable households during the traumatic process of relocation. All this has created such bitterness in the area that there have been unprecedented mass demonstrations of protest by the tribal peoples. This is taking place during the preliminary phases of the evacuation, before the huge relocations and inundations take place. It does not inspire optimism concerning the World Bank's ability to monitor and oversee a more equitable relocation program.

The record shows that in spite of its sophisticated analyses and stated good intentions, the World Bank's implementation of measures to protect the rights of indigenous people affected by its projects is often too little and too late.

PROJECTS IN PARAGUAY

The bank has, for example, been funding projects in Paraguay for two decades without making any provision for their impact on the Indians. When it did decide that action on behalf of the Indians should be included in the provisions of the development project in the Province of Caazapa, it took the bank 3 years to arrange for anthropologists to study the situation of the Mbya Indians who would be affected. In the meantime, innumerable technical studies had been

carried out and the bank had been discussing the project for years with the Paraguayans. As a result, the Paraguayans had gone ahead with the paving of roads, the building of infrastructure, and plans for settlement of new immigrants to the region. This had already caused a rise in land values, an influx of immigrants, and considerable deforestation, before even the preliminary studies had been made concerning the measures necessary to protect the rights of the indigenous inhabitants of the area.

POLONOROESTE PROJECT

A similar imbalance was noticeable in the management of the Polonoroeste project. There the road work was finished ahead of schedule, producing the expected influx of migrants into northwestern Brazil, but measures to defend the Indians and the environment lagged catastrophically behind.

The result was an environmental disaster and open and massive invasions of Indian lands, which have, moreover, benefited large enterprises and not the smallholders which the project was originally supposed to assist.

The problem here, as in the Philippine case, was that the Brazilian authorities systematically flouted the bank's directives on what should be done on behalf of the Indians. The Brazilian Indian Service was partly unable and partly unwilling to do what the bank mandated. Its senior officials did not in any case believe that the World Bank was serious about Indian rights. One of them, who subsequently became the head of the Indian Service, responded cynically to Brazilian Indianists who reminded him that the bank required Indian rights to be protected as a condition of the Polonoroeste loan. He told them that they should not put their faith in the World Bank, for it would not cut off the Polonoroeste funds to protect the Indians.

It is to the credit of the World Bank that it did insist and did achieve some successes on behalf of the Indians in northwest Brazil. It did, in fact, hold disbursements for a time on the loan, but by that time the road had been improved and the damage had been done.

In fact, though the halting of disbursements was a welcome and salutory demonstration that the bank was serious about the conditions it had set for the loan, its practical effect at that stage was to hamper assistance to the Indians, that element of the program which had characteristically been left until last.

This, Mr. Chairman, is the heart of the problem. In the examples that I have given, we have seen again and again that the World Bank's stated intentions have been admirable, but that they have not been matched by effective implementation of those parts of the programs and projects that affect indigenous people or the environment.

PHILIPPINE PROJECT

In the Philippines, the bank's strategy was undermined by noncompliance on the part of the host government, yet the bank persevered for a decade in a policy that was counterproductive. It appears likely

that the bitter and pauperizing consequences of bank-financed relocation that poor Filipinos and Philippine National Minorities experienced in the 1970's are now about to be suffered by a million poor and tribal people in the Narmada Basin of India.

PROJECT IN NORTHWESTERN BRAZIL

In northwestern Brazil, the bank once again financed a giant project with potentially disastrous human and environmental consequences without adequate staff or planning to enable it to mitigate those adverse effects. It was as powerless to deal with noncompliance on the part of the Brazilians as it had been in the Philippines, and it appeared to have no strategy for dealing with such an eventuality.

SITUATION IN PARAGUAY

Meanwhile, in neighboring Paraguay, it is still following its conventional procedure of investing its staff time in economic and infrastructural studies, while paying scant and delayed attention to the human and environmental costs of the processes it has already set in motion even before the loan agreements are signed.

WORLD BANK PROGRAM IN INDONESIA

In view of these experiences, past and present, it is with dismay that we now learn that the World Bank has agreed to finance a massive transmigration program for resettlement of Javanese and other Indonesians in West Irian, that part of New Guinea which is held by Indonesia. The potentials for a disaster of mammoth proportions are all present. Indonesia already has a poor record as regards conservation. The scale of deforestation in Kalimantan, or Borneo has provoked shock both in Indonesia and throughout the world.

At the same time there has been international concern over Indonesian treatment of the inhabitants of West Irian and East Timor, a territory seized by Indonesia when it ceased to be part of the Portuguese empire.

Now the World Bank is financing a project where environmental degradation and mistreatment of the indigenous population of West Irian are both real possibilities as the current flow of refugees out of the region goes to show. On the basis of past experience, it is difficult to have much faith in the bank's ability to control the adverse human and environmental effects of a project so large, so complex, and so highly charged politically.

On the basis of its publications and policy guidelines, the World Bank can claim with some justice to be one of the most sensitive of the MDB's to indigenous and environmental issues. We are concerned, nevertheless, because its deeds systematically differ from its words.

We feel it is imperative for the World Bank to set an example for the MDB's by demonstrating its commitment to these issues in action. This can only be done by engaging qualified personnel to undertake human and environmental impact studies in good time, that is, at an early stage of loan negotiations.

The bank should also maintain an adequate staff of specialists, or specialist consultants to monitor human and environmental impact during the course of bank financed activities.

Finally, it should have clear contingency plans for halting disbursement in the case of noncompliance. The rights of the poor and the tribal peoples, which are so often infringed by bank financed projects, are like the needs of the environment, too important and too essential to proper development to be treated as an afterthought.

Thank you, sir.

Senator KASTEN. We will be right with you, Mr. Olson. Senator Specter wanted to ask a question, and maybe make a brief comment.

Senator SPECTER. Thank you, Mr. Chairman.

I did ask leave to just ask one question. I cannot stay long, and I am very much interested in the problem as you outline it.

EFFECTIVE ACTION BY CONGRESS IN WORLD BANK PROJECTS

How effective can this subcommittee and the Congress be in acting to affect what the World Bank does so that they can in some way regulate or influence the nations involved in these kinds of problems?

It looks like a very long road from here to there to accomplish the kind of results that you are looking for.

Senator KASTEN. Dr. Maybury-Lewis, and Dr. Hair may want to respond briefly.

Dr. MAYBURY-LEWIS. Senator, I wouldn't presume to say how this subcommittee should influence the World Bank. You are in a better position than I am to know about that. But I could respond to the other part of your question which is about what the World Bank could conceivably do, and what we could encourage them to do in response to this type of problem.

It seems to me that it is a difficult problem in that what we have are the stated intentions of the World Bank, which are being in many cases systematically flouted by the host governments. However, I suspect that this systematic flouting of the intentions of the World Bank would not take place so regularly if it was perceived by borrowing governments that the World Bank were serious about these issues.

When, for example, these tribal impact projects are overseen by a staff member of the World Bank, one staff member who travels around the world visiting all the projects, however dedicated, I think this gives the impression to the lending governments that this is a less than urgent consideration of the World Bank.

The lending governments, for example, do take fiscal injunctions of the International Monetary Fund very seriously, and they are required to do so. What I am hoping is that similar seriousness would be imparted to the environmental and human rights issues by the banks themselves.

Senator KASTEN. Dr. Hair, do you want to make just a brief response?

Dr. HAIR. Senator, I think I would approach the answer in the exact opposite end of the tunnel that you came into it. I would say that perhaps you, this subcommittee, and Congress may be our last best hope to resolve this issue. You have some very unique and important leverage.

Senator Kasten mentioned the appropriations process, I think that that is clearly a point of leverage that this Congress ought to use in terms of bringing about some of the needed changes. You could instruct the U.S. Director, the Treasury, and the State Department to push the 19 recommendations prepared last year by the House Banking Subcommittee on International Development Institutions. I think that those are incredibly powerful tools that you have.

I think you could require the U.S. Directors to vote against certain types of projects, particularly transmigration and large scale hydro projects. Those are all important signals. I think you clearly have the leverage and the power to make these kind of changes, and we would certainly support that.

Senator SPECTER. Thank you.

Senator KASTEN. We will now go to Mr. Robert Olson, who is assistant director of the Institute of World Affairs at the University of Wisconsin-Milwaukee. So it is a special pleasure for me to introduce you as a Wisconsinite to our panel. We have your entire statement, and I understand that you plan to summarize your statement.

INSTITUTE OF WORLD AFFAIRS

STATEMENT OF ROBERT K. OLSON, ASSISTANT DIRECTOR, INSTITUTE OF WORLD AFFAIRS, UNIVERSITY OF WISCONSIN-MILWAUKEE

GLOBAL CONSIDERATION OF ENVIRONMENTAL PROBLEMS

Mr. OLSON. Thank you very much, Mr. Chairman. I am delighted to be here. Indeed, I am going to give you only an abbreviated version of my full statement in the interest of time. I think that it can be boiled down, and the essence of it given in 5 or 10 minutes.

Senator KASTEN. Without objection, the entire statement will appear in the record as if read.

Mr. OLSON. Thank you very, very much.

I have the pleasure this afternoon, Mr. Chairman, of speaking on behalf of the National Resources Defense Council, and the Environmental Policy Institute. I am also speaking as an associate of the Global Tomorrow Coalition of Washington, DC, and the U.S. Association for the Club of Rome. Both groups foster one central idea, and that is to think globally and to act locally, that everything relates to everything else. I think this is an idea whose time has come and has been reflected in the testimony already presented by other panel members.

I would also like to think that I am speaking for the many people of Wisconsin who are concerned with environmental issues and have been affected by them.

TROPICAL FORESTS

I shall focus my remarks today on the question of tropical forests because it is of central importance to the entire environmental picture, and because it is fitting.

Mr. Chairman, the people of Wisconsin that I have discussed this issue with are absolutely horrified, those who are aware of the destruction of tropical forests. I might mention that because of this, the Milwaukee Public Library is doing a special display for the public on tropical forests and the threat of their destruction. So it is a public issue.

Why particularly Wisconsin? Because 100 years ago, the forested northern three-fifths of the State of Wisconsin was being ravaged in the same manner that the tropical forests are being cut today.

Wisconsin, along with Michigan, parts of Minnesota, and Ontario, once had the world history's greatest forest of white pine. This was the forest primeval of which we know nothing today. Like the oak groves of antiquity and the cedars of Lebanon, they are gone forever, wiped out in the space of a couple of generations or so.

PARALLEL BETWEEN BRAZIL AND WISCONSIN

I mention this because the parallels of what is happening today in Amazonia and elsewhere are startling: Cheap land, a government settlement policy and a surplus population; quick profits exported elsewhere; slash and burn operations; forest fires deliberately set to clear the land for farming. Parenthetically, I might mention that the great Peshtigo fire, which occurred in 1871, the same day of the great Chicago fire, cost the lives of 1,200 Wisconsinites, and burned level 15,000 square miles. It was just an episode in those days, but it has happened in Wisconsin. It left an ecological disaster area, a moonscape of nothing but slashings, burned-over land, and barren hillsides. There are areas of the State of Wisconsin, as you well know, still called the pine barrens.

When you look at the pictures of the destruction of Amazonia in detail that you have here today, it is pictures that could have been taken in Wisconsin, I have seen them, over 100 years ago. If you would like, when I return to Wisconsin, I would like to send you a couple of pictures just to show you the parallels.

I might add that in addition there was State promotion, failure of farming schemes, and the consignment of natives, American Indians, displacement, degradation, disease, and death.

The heritage for Wisconsin, Mr. Chairman, was the creation of a permanently depressed area, still dependent on tourism, the rest of the State, and the Federal Government to maintain itself.

The second growth forests are largely junk. The only significant export today is paper, pulp, and young people. This in an area that might have produced a permanent and prosperous culture based on a renewable resource, both beautiful and bountiful.

So there should be absolutely no doubt about what is happening today in Amazonia and elsewhere, and what its future will be. We

literally wrote the book ourselves, with this one appalling difference between the deforestation of the north and the tropics, that is, the deforestation of the south is irreversible.

ACTIONS TO PREVENT DESTRUCTION OF NATURAL AREAS

So what is to be done? Let's get directly to the point because that is the one in which all of us are interested. I have three suggestions to make, Senator. There are a lot of things that can be done, we are not helpless.

First, we should support and encourage the people and interests within the countries affected who understand the issues and want to do something about them because, in my belief as a former official of the State Department and a former Foreign Service Officer with many years of experience, effective change in another sovereign country will only come from within.

We can do this, however, through nongovernmental organizations, through our official missions abroad, and through American and foreign business interests. In this latter regard, I might like to mention the World Resources Institute's private sector initiatives, the Woodland Center for Growth Studies, and the Corporate Conservation Council of the National Wildlife Federation.

Second, I would like to recommend that the United States use every bit of influence it can to support the recommendations of the World Forestry Congress held in Mexico City last July. The proposal calls for investments of $8 billion over the next year in thousands of projects for tree planting, conservation, training, and related matters. This may sound outlandish, but compared to estimates by, let's say, by the Food and Agriculture Organization, it is about half of what is estimated will be required during the next 15 years to provide the minimum forest products demanded of Third World countries between now and the year 2000.

This strategy, by the way, was developed and is being coordinated by the World Resources Institute of Washington, DC, for presentation to the governments and agencies involved.

Finally, the United States has considerable leverage, as has already been pointed out, through its leadership role in the World Bank and the IDB, the primary focus of these hearings and let's not forget their leadership role in development.

BANK PRIORITY TO FORESTRY SECTOR

What I would recommend, Mr. Chairman, is that the United States press the banks to give a higher priority to the forestry sector. It is encouraging to note that the banks actually feel the same way.

First, the World Bank, and in this regard I would like to quote from the World Bank's own June 1984 review of the World Bank Financed Forestry Activity in fiscal year 1984. This is an abbreviation, but it points out the friendly forces that exist within the Bank.

By and large, the bank's performance in forestry sector planning has been poor. There are several reasons for this. First, inadequate allocation of manpower coefficients and funding.

We don't have to tell them this, they know it themselves.

Second, the design of sector project analysis studies, which are mainly carried out by agricultural division staff, usually focus too narrowly on forestry production possibilities and fail to establish the important interlinkages between forestry and food production, forests' role in production of water and genetic resources, and linkages between forestry, energy, and industrial sector activities.

To do a better job in this area would require a simultaneous input from bank, economic, agriculture, forestry, industrial, energy, transportation, and environmental staffs. The current organizational structure of the bank does not facilitate such integration at the sector planning and project identification stage, and the resource allocation for sector work is hopelessly inadequate.

The following sentence, I would like to have put in italics, which are mine.

This is an important issue because it is usually the lack of political awareness of the economic and social implications of deforestation at the national government level which is responsible for the very low level of priority accorded to forestry in national development plans. Consequently, the budgetary allocations for remedial reforestation measures fall far short of what is needed to contain deforestation.

That is from the World Bank's report itself.

The case of the IDB is similar to that of the World Bank. Forestry projects are a minor component of IDB activities, included as a sliver of the agricultural and fisheries sector, not even deserving a sector of its own. Here again, I think the IDB speaks well enough for itself, and I quote from the IDB, the environment, a 1983 report:

To date, the member countries have given forest protection low priority because such programs imply a long term investment that holds scant appeal for business or government. The lack of information on existing forest resources, on their value, on the market for forest products combined with limited technical knowledge has aggravated the situation.

Nevertheless, reading the rest of this 28-page report would lead one to believe that the bank's environmental credentials are impeccable. It understands the problem of the tropical forest, of demographic pressures and, indeed, "has placed the protection, conservation, and enhancement of the environment among its highest concerns in its project financing activities in Latin America."

Can we, therefore, leave it up to the banks to take the necessary steps? I think not.

BRAZILIAN PROJECTS

The World Bank gave us the now infamous Rondonia project in Brazil. The IDB has just approved the Porto Velho-Rio project to extend the Rondonia project into Acre Province. In its criticism of it, the U.S. Representative cited a Pandora's box of problems, which for brevity's sake I can only say that they are the same old problems as those associated with the devastation of Wisconsin 100 years ago and of the Rondonia project, nor are these the only problem projects.

PICHIS VALLEY DEVELOPMENT

Before closing my testimony, I would like to mention an IDB project called the First Stage of Comprehensive Development in the Pichis Valley. This is in the central rain forest of the Peruvian Amazon.

This appears to have all the hallmarks of the Porto Velho-Rio Branco project, a pioneer agricultural resettlement project based on an improved road network and peasant migration. Granted that the project description includes all of the environmental concerns and safeguards, will the Government of Peru do any better than the Government of Brazil?

This project was approved by the IDB in 1982, despite the fact that the World Bank itself refused to fund any agricultural development in the area for the classic reasons we have already reviewed.

This project, by the way, is being promoted in an area in which three of the previous six jungle settlement schemes have already been abandoned by the settlers. They couldn't make a living.

What is to be done?

The United States should press the World Bank to follow its own advice and to build up its forestry sector. It should press the IDB to develop a forestry sector, independent of other sectors for exactly the reasons set forth in the report of the World Bank quoted above. This is essential for internal as well as external reasons.

Forestry interests, as well as environmental interests, need a spokesman, an office, a sector chief, as it were, and a unique priority. Without it, given the politics of bureaucracies and the sharing out of scarce resources, forestry management will inevitably take second place to existing sectors.

We can help to change that and it should make a difference in the future. The IDB and the World Bank are not venal institutions, they are good institutions, with much to their credit. They just have very tough and difficult, environmentally violent jobs to do. So let us not just limit ourselves to bank bashing. Rather the banks can be a positive force for change in the forestry sector as they have been in other sectors. What we have to do is to get them on the right side of the issue before further destruction transforms Amazonia and other similar areas into another northern Wisconsin.

Thank you very much.

[The prepared statement of Mr. Olson follows:]

PREPARED STATEMENT

OF

Robert K. Olson
Institute of World Affairs
The University of Wisconsin-Milwaukee
on behalf of
The National Resources Defense Council
The Environmental Policy Institute

Good morning Mr. Chairman, Committee Members.

I have the pleasure this morning of speaking on behalf of the National Resources Defense Council, and the Environmental Policy Institute.

I am also speaking informally as an associate of the Global Tomorrow Coalition and the US Association for the Club of Rome. Both groups foster one central idea - to think globally and to act locally, that everything relates to everything else, a concept basic to environmental thinking and economic development. Finally, Mr. Chairman, as a citizen of Wisconsin, I would like to think that I am speaking for the many people of Wisconsin who are concerned with environmental issues and have been affected by them.

I shall focus my remarks today on the question of tropical forests because it is of central importance to the whole environmental picture.

The Wisconsin Experience

And because it is fitting.

A hundred years ago, the forested northern three-fifths of the State of Wisconsin was being ravaged in the same manner that

the tropical forests are being cut today. Wisconsin, along with Michigan, parts of Minnesota and Ontario, once had the world's, history's greatest forest of White Pine. This was "the forest primeval" of which we know nothing today. Like the oak groves of antiquity and the cedars of Lebanon, they are gone forever, wiped out in the space of a couple generations or so.

The parallels to what is happening today in Amazonia and elsewhere are startling:

cheap land to be had for a pittance,

a government settlement policy and a surplus population,

quick profits from logging off the land,

extensive waste - only the best taken,

slash and burn operations. Forest fires were deliberately set to clear land for farming.

an ecological disaster area. Widening in the wake of the logging was a moonscape where one could look for miles and see nothing but slashings, burned over land, and barren hillsides. There are areas of the state still called "the pine barrens".

poor podzolic soils, good-for-nothing, and leaching out in a few years,

the state promotion and failure of farming schemes,

consignment of the natives to displacement, degredation, disease, and death.

The heritage of Wisconsin, Mr. Chairman, was the creation of a permanently depressed area, still dependent today on tourism, the rest of the State, and the federal government to maintain itself. The second growth forests are largely junk, poor quality trees - jackpine, balsam, spruce, and aspen. The only significant export today is paper, pulp, and young people. This is an area which might have produced a permanent and prosperous culture based on a renewable resource, both bountiful and beautiful. And

this is the future for Amazonia as the forests come down.

The profits, I might add, were also exported, financing huge personal fortunes elsewhere in the country.

There was widespread public concern. Yes, even in those days. One Increase Lapham et al. published a report entitled "The Disastrous Effect of the Destruction of Forest Trees Now Going On So Rapidly In the State of Wisconsin." That was in 1867. But nobody listened.

There should be absolutely no doubt about what is happening today in Amazonia and what its future will be. We literally wrote the book ourselves. I hope we will have learned something from this experience.

What is to be done?

There are several things we can't do. Let us be clear about them from the beginning so we don't waste our time and energy.

(1) The beginning of wisdom, I should think, would be to understand that the cause as well as the cure is largely a domestic matter, the responsibility of the country concerned. It was Americans who raped Wisconsin and Americans who are restoring it. If the tropical forests of the Amazon, for example, are going to be saved, it is going to be the Brazilians, Peruvians, Venezuelans and Colombians, who will do it. Sovereign nations, including our own, have a way of doing what they want to do within their own territories, doing it their own way, and at their own pace. We Americans have a propensity to think that we have as much responsibility and influence abroad as we have at home. But this just isn't so and we should not delude ourselves into thinking there is very much we can do about it directly.

(2) It may well be said that the ultimate cause is not within these various countries but in the high consumption

societies of the North which provide the demand for the products of the forests, that tempering that demand would help to ease the pressure. And, indeed, it would. Except that no international free market economy is going to be run from a government office in Washington or Brussels or Tokyo.

(3) Similarly, we can ill afford to impair economic growth even in the process of conservation. What is involved is not merely a matter of corruption, greed, or stupid exploitation of resources for quick, short-term profits for the few - although all these factors are involved. I speak of the international debt situation which, if mismanaged, could break loose like an avalanche to destroy the economies of creditor and debtor alike. The only alternative to stagnation, debt renunciation, and/or political backlash is economic growth. And the key to economic growth in debtor countries is not only IMF conditionality, structural adjustment, better government management, and support of the banking system, but expanding exports mainly to developed countries.

These are imperious demands for all, therefore. The economic breakdown of the big Latin American debtors - Brazil, Argentina, Mexico, and Venezuela - or the roughly dozen smaller debtors in Latin America who together owe over $90 billion to the United States alone, and have to manage 50% debt service ratios, could seriously damage the U.S. economy.

Let us bear this in mind before we get too romantic about small being beautiful or advocating a return to the joys of subsistence agriculture and the virtues of trickle-up rather than trickle-down as some are proposing. It is too late to slam the barn door. What has been done has been done. We have to accept what is and go on from there.

(4) Some suggest the establishment of a new intergovernmental organization, an International Forestry

Organization (IFO). But I think not. The United States has been against the establishment of new international organizations for years on the grounds that they are costly, generally ineffective when it comes to practical matters, interfere with the free market, and will provide another agency where the Third World can gang up on the U.S. The history of the UNCTAD Common Fund is a case in point.

(5) Some have suggested the formation of a forestry cartel, an OPEC of tropical forest countries which would cooperate in raising prices of tropical wood products in order to generate the enormous investment needed to manage the forests before it is too late, to respond to the world's legitimate demands, and to reforest and repair where possible. This may be possible as supplies diminish and prices rise. But, to date, the attempt to realize this idea, among the ASEAN countries, for example, has been fruitless.

Things We Can Do

(1) We can support and encourage the people and interests within the countries affected who understand the issues and want to do something about them. We can do this through nongovernmental organizations, our official missions abroad, and through American and foreign business interests. In this latter regard I might mention the World Resources Institute's private sector initiatives, the Woodlands Center for Growth Studies, and the Corporate Conservation Council of the National Wildlife Federation. I mention this first in order to emphasize the importance of bearing in mind that if effective change is to come, it must come primarily from within.

Attached to my testimony is a recent CSM story on what appears to be a model project by the Colombian Corporation,

Monterrey Forestal SA, at Zamboanga, Colombia, a private initiative without governmental or international supervision.

(2) World Forestry Congress recommendations

I would recommend that the United States use every bit of influence it can to support the recommendations of the World Forestry Congress held at Mexico City last July. The proposal calls for investments of $8 billion over the next five years in thousands of projects for tree planting, conservation, training, and related matters. It is a draft plan for a country-by-country strategy involving collaboration among private groups, international agencies, the UN system, and developing countries, with half the funds to be supplied by the donors and half by the recipient countries. The strategy was developed and is being coordinated by the World Resources Institute of Washington, D.C. for presentation to the governments and agencies involved. This strategy, I might add, tries to bridge the gap between governments and the rural poor by calling for increased support for involvement of small, grass roots, nongovernmental community groups.

While this $8 billion recommendation sounds excessive, I would like to point out that it is actually quite conservative. The FAO, for example, estimates that $17 to $22 billion per annum is needed by developing countries for industrial plant, logging, and primary transport, and plantations to meet projected world demand for wood products between 1985 and the year 2000.

(3) Multilateral Development Banks

The United States has considerable leverage through its leadership role in the World Bank and the IDB, the primary focus of these hearings, and their leadership role in development.

We recently demonstrated this influence when the United States abstained from voting on the $73 million IDB loan to

improve the Porto Velho-Rio Branco Highway into Acre Province in Brazil. While this project - like its World Bank predecessor in Rondonia - provides measures to protect the environment and the indigenous population, the past performance of the Government of Brazil in these respects provides no grounds for believing that they will be managed any better in the future. The U.S. abstention was not enough to stop the project - it has been approved. But, it did reduce it by $14.5 million and, as one American official said, "I think we shook them up a bit." I have been advised by officials of the IDB that disbursements on this loan have not gone forward because the Government of Brazil has not completed preliminary studies of environmental impact.

As a consequence of the problems associated with this and other projects, the World Bank and the IDB have come under heavy and, I believe, justifiable criticism from environmental groups. This is all to the good and needs doing. But there is no point in my repeating what has already been said or written by others.

What I would recommend, Mr. Chairman, is that the way to correct any trend toward abusive exploitation and to anticipate future world needs is for the United States to press the Banks, USAID, host countries, other bilateral donors, and the private sector to give a higher priority to the forestry sector.

The World Bank

In this regard, I would like to quote from the World Bank's own June 1984 Review of World Bank Financed Forestry Activity FY 1984.

1. Bank group lending for forestry in FY 1984 amounted to $170 million in 9 different countries. Total ODA resource flows for forestry are running at $250 million per annum. This is "nowhere near the level of commitment needed effectively to

address the negative impact of accelerating deforestation in the developing countries on desertification, food production, on water supplies, on fuel wood availability, and on soil, plant and animal resources.....A priority concern of Bank forestry lending remains that of how to achieve the five-fold increase in ODA resource flows for forestry that would be needed to cope with tropical deforestation."

2. "In general, the Bank's performance in forestry research remains extremely weak....."

3. "By and large the Bank's performance in forestry sector planning has been poor. There are several reasons for this. Firstly, inadequate allocation of manpower coefficients and funding. Secondly, the design of sector project analysis studies which are mainly carried out by Agricultural Division Staff usually focus too narrowly on forestry production possibilities, and fail to establish the important inter-linkages between forestry and food production, forests role in protection of water and genetic resources, and linkages between forestry, energy and industrial sector activities. To do a better job in this area would require a simultaneous input from Bank Economic, Agriculture, Forestry, Industrial, Energy, Transportation and Environmental staff. The current organizational structure of the Bank does not facilitate such integration at the sector planning and project identification stage and the resource allocation for sector work is hopelessly inadequate. This is an important issue because it is usually the lack of political awareness of the economic and social implications of deforestation at the national government level, which is responsible for the very low level of priority accorded to forestry in national development plans. In about 80 developing countries the forestry budget amounts to less than 2 percent of combined agriculture/energy expenditures and in

the light of the formidable problems now being experienced as a result of past deforestation, the budgetary allocations for remedial reforestation measures fall far short of what is needed to contain deforestation.

4. "That improved sector and policy work have a decisive impact on both Bank member countries willingness to support forestry development as well as in the measure of priority given to forestry in national development plans seems a reasonable assumption. For example, we could cite the impact of the Forestry Sector Policy Paper in 1978 which committed the Bank to a five-fold increase in forestry lending between 1978 and 1983, and to a target for that period of $500 million. Response of national governments was immediate and very positive and, in fact, we committed the US $500 million in three years instead of five, spread over 27 different projects and 23 countries. Since then, forestry lending has declined sharply primarily because of IDA and country program constraints.

The IDB

The case of the IDB is similar to that of the World Bank. The IDB has concentrated its resources on energy, industry and mining, transportation and communications, and agriculture and fisheries - basic economic development and infrastructure projects - which account for about 75% of all its loans between 1961 and 1984.

These are types of projects which, by their very nature, have a violent impact on the environment. And this is to be expected: You can't make an omelet without breaking eggs. It would be impossible to transform any country from a rural backwater steeped in poverty to industrial or post-industrial maturity without affecting the environmental status quo.

Forestry projects on the other hand are a minor component of

IDB activities included as a sliver of the agriculture and fisheries sector not even deserving as a sector of its own. In the face of what we see as a hideous repetition of our own North American experience of forest destruction, we should ask ourselves, Why? And here I think the Bank speaks well enough for itself.

"To date, the member countries have given forest protection low priority because such programs imply a long-term investment that holds scant appeal for business or government. Lack of information on existing forest resources, on their value, and on the market for forest products, combined with limited technical knowledge, has aggravated the situation." (The Inter-American Development Bank and the Environment, May 1983, p. 24).

Nevertheless, reading the rest of this 28-page report would lead one to believe that the Bank's environmental credentials are impeccable. It understands the problem of the tropical forest, of demographic pressures and, indeed, "has placed the protection, conservation, and enhancement of the environment among its highest concerns in its project financing activities in Latin America." On May 9, 1979, the Board of Executive Directors approved Operational Policy 713 which set guidelines for Bank environmental management activities. I am attaching a copy of this statement. A 1985 Report on Bank Activities in the Environmental Field 1983-84 Biennium is equally impressive.

And yet, included among the projects reviewed is the Porto Velho-Rio Branco Road Improvement project, a project so badly conceived that the United States abstained from voting on it. According to the statement by the United States Executive Director, Jose Manuel Casanova, the road project will open up a Pandora's box of problems resulting in costs beyond the projected rates of return foreseen in a project narrowly focused on transportation. More specifically:

- The road will lead to rapid migration,

- Rapid migration will lead to substantial deforestation,

- Deforestation will lead to flooding in the wet season and drought in the dry season, soil erosion, downstream pollution of fisheries resources, and health problems, and

- Neither soils nor settlers will have the strength and resources to develop a successful agricultural base, (Shades of Wisconsin).

Not the least, the timing of the environmental study and action plan was too late. (We have already noted that disbursements on this loan have not gone forward because the government of Brazil has not completed preliminary environmental impact studies.)

In support of his objections, the US Executive Director drew attention to the close similarity to the World Bank project in Rondonia, to the failure of the Government of Brazil to prevent rapid migration, squatter invasion of proposed national forests and other designated areas, the rapid destruction of the forest at such a rate that it will be gone by 1991, agriculture inappropriate to the soils and climate, and the overwhelming of the social services.

In other words, if you liked the World Bank's project in Rondonia, you will love the IDB's Porto Velho-Rio Branco Project in Acre Province.

It is a case such as this that obliges one to question the IDB's basic environmental credentials. So how about other projects?

How about the "First Stage of Comprehensive Development in the Pichis Valley" project in the central rain forest of the Peruvian Amazon? This appears to have all the hallmarks of the Porto Velho-Rio Branco project, a pioneer agricultural resettlement project based on an improved road network and

peasant migration. Granted that the project description includes all the environmental concerns and safeguards, will the Government of Peru do any better than the Government of Brazil? This project was approved by the IDB in 1982 despite the fact that the World Bank itself refused to fund any agricultural development of the area for the classic reasons we have already reviewed. This project -by the way- is being promoted in an area in which 3 of a previous 6 jungle settlement schemes have been abandoned by the settlers.

For all this, I do not want to condemn the Bank completely for environmental indifference or ineptitude. I believe that its intentions are sincere. However the point, is that <u>good intentions are not good enough.</u>

What then is to be done? I go back to my previous recommendations made the context of the World Bank discussion but adding one more specific recommendation for the IDB. That is that the IDB develop a forestry sector <u>independent</u> of other sectors for exactly the reasons set forth in the Report of the World Bank quoted above. This is essential for internal as well as external reasons. Forestry interests, as well as environmental interests, need a spokesman, an office, a sector chief, as it were, and a unique priority. Without it, given the politics of bureaucracies and the sharing out of scarce resources, forestry management will inevitably take second place to existing sectors.

Impossible? Not necessary? Hard to justify? Not at all. The real question is, Why, in an era when the destruction of tropical forests is possibly the number one environmental priority, does the IDB not even have a forestry sector?

We can help to change that and it should make a difference in the future. But it needs doing now. The IDB is a good institution with much to its credit. Let us not limit ourselves

to bank bashing. Rather, the Bank can be a positive force for change in the forestry sector as it has been in other sectors. All we have to do is get it on the right side of the issue before further destruction transforms Amazonia into another northern Wisconsin.

EFFECT ON DEFORESTED TROPICAL AREAS

Senator KASTEN. Mr. Olson, we thank you.

Before I turn this over to Senator D'Amato, who may have a statement and some questions, I just want to make one comment.

First of all, we are not always very trustful of State Department employees, or even former State Department employees on this committee, but we greatly appreciate your testimony here today.

As you may or may not know, one of the places that I spend a good deal of time is the north woods of Wisconsin. I just got back from the Apostle Island about a week or two ago. The northern part of our State is still suffering from the abuses that you described.

However, frankly, Wisconsin does not have the fragile soils that are present in many of the tropical areas that are being deforested today. I wonder if you could just very briefly, and Jay, you might want to comment also, speculate on that. We know what has happened in a place like Wisconsin, but if you start to think in terms of the fragile soils in some of the areas that are being deforested now, could you speculate briefly on what we can expect to see occur in these tropical deforested areas over the next 100 years or so?

Mr. OLSON. Yes, sir. It is my understanding that once the tropical forests are gone, what replaces them are grass; ones which are submarginal and good only for ranching, and not very good for that. Where the grasslands, or the savannahs are not able to take over the laterite soils merely leach away and are eroded by heavy tropical rains, which have hitherto been held in place by the tropical forests themselves.

The thing is that the tropical forests have grown up on their own residue. As in the north, there is a very light, 2 or 3 inches, of humus that has built up from decay of plant material, and it grows on that. If you go up to Bayfield, go back on the hills, you will find about 2 or 3 inches of humus, and below that there is nothing but dirt, rock, sand, and so forth, and the same thing in the tropical areas, only these are laterite soils. They have no nourishment of their own, and they have these tropical rain forest climates. So before anything can take hold and retain the soil, they are just washed away.

AIR POLLUTION PROBLEMS

Dr. HAIR. Typically, the first environmental impact that you confront in any of these large scale clearings, particularly in an area like this where you are doing a massive amount of burning, is going to be air pollution. This is then usually followed by a massive amount of water pollution and soil erosion.

At the early successional stage of regrowth you see an invasion by a variety of plants, particularly the grasses and legumes. You will never see the reestablishment of the tropical rain forest. It is gone for all time.

Then, because of the nature of the soils, you are not going to see long-term sustainable agricultural production. The soil often becomes depleted, the crops fail, and you see more widespread use of the cleared land for grazing of domestic animals, which is also generally unsustainable.

There are not benefits, quite frankly, that accrue in the long haul, either environmentally or economically, to these massive clearing projects.

Senator KASTEN. Yesterday, a number of us saw a movie, called "The End of Eden," which is produced by Rick Lomba, which I would recommend to everyone. Hopefully, we can get enough people talking about this that we might have a chance. They make the point with that movie, about the effects on the soil that both of you made.

Senator D'Amato.

POLICY OF INTERNATIONAL DEVELOPMENT BANKS

Senator D'AMATO. Mr. Chairman, first of all, let me commend you for calling the hearing today on this environmental policy, or should I say, lack of a policy followed by the multilateral development banks. I commend your effective leadership, and more importantly your resolve to deal with this most important issue.

Many times, Mr. Chairman, the desire for rapid growth blinds people to the possible consequences. The environmental policy of our international lending institutions is a classic example. The United States provides billions of dollars to the World Bank, the Inter-American Development Bank, the Asian Development Bank, and the others, to foster economic growth in lesser developed countries. While these objectives for a better standard of living for some of these nations is important, the question has to be asked: At what price?

ECONOMIC GROWTH IN THIRD WORLD NATIONS

The importance of economic growth in the Third World nations is not a debatable issue. To help lift these nations out of the bondage of poverty is a moral and rewarding endeavor, but the United States knows from experience that economic development without consideration of the environmental impact can be devastating, and can have long-lasting effects.

Over the last 20 years, environmental problems have intensified for the Third World nations because of pressures and rapid population increases, natural resource exploitation, and pollution. Lending billions of dollars to nations which experience such problems, without environmental guidelines, is a shortsighted policy.

Therefore, Mr. Chairman, let me congratulate you not only for holding this hearing, but for your legislative initiatives as well.

The World Bank, the largest of the multilateral development banks, often is criticized for its lack of environmental guidelines for the projects it chooses to fund. The bank has been transferring billions of dollars each year for projects to lesser developed nations. Environmental concerns are often a low priority for a poor country trying to improve its economy. The World Bank could use its influence to provide the incentives for recipient nations to follow environmental guidelines. The World Bank commitment, however, is hindered by a meager environmental staff, less than 10 people out of the bank's total work force of 2,800.

One example of the World Bank's lack of sound environment planning is the project that you have just testified to in Brazil. I will not go into it, but I think that it is rather important that we not continue to compound the environmental problems that are faced throughout the world with our own ill-considered funding of projects that do not have adequate environmental standards.

Regional banks, such as the Inter-American Development Bank and the African Development Bank, also have poor environmental track records. These banks provide millions in loans, sometimes at little or no interest. Regional banks have much more room for improvement, but it is really the World Bank which must take the lead on these initiatives.

Commercial lenders are also at fault. There is little environmental consideration given to loans to lesser developed countries. Indeed, there is no incentive whatsoever except, of course, self-interest for the borrower who receives lower interest loans with no environmental guidelines, to use any part of their project funds toward proper environmental management.

Congress has expressed its dissatisfaction with the lack of environmental concerns by the multilateral development banks. Recommendations were put forth last year by Congress to deal with this growing problem.

I realize that recipient countries must be willing to enforce environmental policies for there to be any significant improvement, but without guidance from the multilateral development banks, the environment of developing nations will continue to deteriorate.

Mr. Chairman, again, let me commend you for your leadership in this area. It is an area that I think we have done far too little. It is an issue that I hope you can continue to actively address and raise, not only our national awareness, but worldwide concern as well. I am delighted to be able to put this statement in the record, and say that I pledge to you my support for your legislative initiatives.

Senator KASTEN. Senator, thank you very much for your statement, and also for your comments.

Do you have any questions at this time?

Senator D'AMATO. No, I do not.

RECOMMENDATIONS ON ENVIRONMENTAL CONSIDERATIONS

Senator KASTEN. Dr. Hair, can you make any specific recommendations?

First of all, I think we have all been very critical, but the fact is that we have made a lot of progress in the last year. I will even say that we have made a good bit of progress in the last 6 months in that we have a very positive statement, particularly the statement from Treasury. I think you are also familiar with our continuing dialog, particularly with the World Bank.

I think that we are making some progress, but can you make any specific recommendations on what can be done that would institute environmental criteria as part of the selection process in reviewing projects for potential funding?

Dr. HAIR. Let me say first, Senator, that I very much concur with the philosophy and attitude of your question. I think that it is very easy for many of us to point out deficiencies, but it is more important that we point out positive options to correct the problems in the long haul.

I would say first, in terms of recommendations, that it is critical that the 19 recommendations prepared last year by the House Banking Committee, and which I mentioned earlier, be implemented. The most essential of those, I believe, are the necessity of increased environmental staffing by the banks; a shift in the banks from large-scale capital intensive projects, to smaller scale environmentally beneficial projects; third, the organizational reforms by the banks to ensure that nongovernmental, environmental, and indigenous peoples' groups, as well as environment and public health ministers, are consulted and involved in the planning and implementation of any of these projects.

I also believe that the banks could commission a study of those projects which resulted in serious natural resource degradation, and from that prepare a list of the type of projects that should be avoided in the future.

It seems to me that the most important change that needs to happen is an attitudinal change. It is imperative that the banking institutions understand that the economies of all nations, particularly developing nations, are resource based economies, and among those resources that are the most vital are the people, and such environmental amenities as forests, fertile soils, and clean water.

It is not appropriate in my view that we, North Americans, place our values on the developing needs of Third World countries. If these nations are to survive and take their justified place in our world society, which I indeed believe they must, it is essential that their natural resource bases be maintained and be protected.

Thank you.

NONFINANCING PROJECTS OF MDB'S

Senator KASTEN. Are there categories or groups of projects that in your opinion the banks should not be financing?

You suggested that the banks should be shifting their resources to the funding of different types of projects. I don't want to get into this high

technology, low technology, large scale development issue. But are there certain kinds of categories that you think the banks should not be financing?

Dr. HAIR. Absolutely. That is an excellent question.

Some of those which I think should not be funded include: colonization schemes in tropical forest regions; beef cattle production in tropical moist forests; large hydroelectric reservoirs, especially in tropical forest areas. Also, large scale agriculture projects and indiscriminate logging operations in the tropical forests.

Senator KASTEN. Dr. Maybury-Lewis, do you concur with that list? Would you add or subtract anything? Obviously, you have put a little more emphasis on cultural areas.

I would also ask Mr. Olson if he also concurs in that list?

Dr. MAYBURY-LEWIS. That would certainly exhaust my list. I would add transmigration to my list, but transmigration is an effect of resettlement projects. Those are the ones which are most detrimental.

Senator KASTEN. Do you concur in that list?

Mr. OLSON. Yes, Senator, I concur completely in the recommendations.

SELECTION OF PROJECTS TO BE FUNDED

Dr. HAIR. Senator, may I add one further aspect of that?

In the spirit that you set these discussions, I'd like to discuss not only what kinds of projects shouldn't be funded, but also what types of projects should be funded.

As I indicated in an earlier response, what should be funded in our view are more small-scale projects in such areas as sustainable agriculture, forestry and fisheries. There should be strong encouragement of the use of the less capital intensive technology, and research of the new applications of the appropriate technology.

There should be funding of resource and rehabilitation projects such as soil conservation and reforestation. We should be doing more in the way of training and education of natural resource professionals in the developing countries to deal with their unique problems.

Senator KASTEN. Dr. Maybury-Lewis, we have made comments about the progress that has been going forward in the environmental and conservation areas. I know that we have a dialog going now with the World Bank. Do you also believe that multilateral development banks are doing a better job on this issue?

Dr. MAYBURY-LEWIS. Do you mean on the issue of indigenous rights?

Senator KASTEN. On your issue.

Dr. MAYBURY-LEWIS. Occasionally there are some small successes chalked up in our area.

Senator KASTEN. Are there any particular ones that are doing a good job?

Dr. MAYBURY-LEWIS. I wouldn't say that there is any individual bank that I could single out and say: They are, across-the-board, doing a good job.

Senator KASTEN. Senator D'Amato.

VALUE OF RAIN FORESTS TO REGION

Senator D'AMATO. I was struck by the significance and importance of the only rain forest that I have ever seen. I would imagine that the rain forests have tremendous importance to all of the regions.

The rain forest I am thinking of is located around the Panama Canal. I shudder to think of what would happen if that rain forest were eliminated. It would affect the operation of the canal, and everything else with it.

Can you ever reclaim a rain forest?

Dr. HAIR. If you are talking of clearing on the large scale, Senator, the answer is that you cannot. Once you have destroyed the basic systems of the energy flow through that ecosystem, the degree of biological diversity and the natural functions those species perform are also destroyed.

Senator D'AMATO. In other words you reach a certain point where it is irretrievable.

Dr. HAIR. It is gone. It is gone forever.

Senator D'AMATO. What is the status of the world's rain forests? Has anybody summed up how many are imperiled?

Mr. OLSON. I couldn't sum that up with any technical accuracy, Senator, but I would like to point out that since about 7 or 8 years ago—much of this started with a report that had been commissioned by the State Department, as well as the Foreign Service in tropical countries, to combine their data and information on the state of tropical rain forests. For the first time, this scattered information was brought together in one place, in a State Department report, which has since been forgotten.

It provided a story of such horrifying dimensions and such irreversible damage that it has catalyzed the worldwide interest in this situation now.

I guess my message is that it is not an isolated phenomena. It affects the tropical rain forests on every continent through the tropical belt.

BIOLOGICAL DIVERSITY CRISIS

Dr. HAIR. Let me add one further idea to this. Just this week, I read an article in the National Academy of Sciences' publication, called "Issues." It was an article written by a colleague of Dr. Maybury-Lewis at Harvard, Edward O. Wilson. His discussion was on the biological diversity crisis.

He opened that article by saying: How big around is the Earth? We know it is so many kilometers. How many trees are on the surface of the Earth? We know the numbers, or we can estimate the numbers. How many genes are in certain kinds of cells? We know the answer to that. How many stars are in the universe? We know the rough answer to that.

But, how many species are there on Earth? We have no idea, not even the order of magnitude of how many species there are. It is particularly critical that we don't know how many there are in tropical rain forests. He points out that approximately 70 percent of our drugs that we use today come from native plant materials. How many plants are still out there whose names we don't even know, but that could provide us with the drugs we desperately need to cure certain diseases?

The point is that these resources must be inventoried, and they must be saved, from an ethical, a moral, and a scientific point of view, for the benefit of current and future generations. It is as simple as that.

CATASTROPHIC ACTIVITIES ENDANGERING RAIN FORESTS

Senator D'AMATO. If I might indulge upon your time for just one more question.

Doctor, would you care to briefly outline what the most important criteria are in preserving and protecting the rain forests in our environment? What are the catastrophic activities that endanger them?

Dr. HAIR. Many of the activities that most threaten the tropical forests, like crop agriculture, cattle raising, or careless logging, are undertaken for short-term gains, and yet they undermine or destroy the long-term productivity of the forest. But it is entirely understandable that these activities continue. They are driven by economic forces, especially since most developing countries seek desperately to liquidate any available resources to pay their external debt. Instead the MDB's should be promoting development strategies to promote long-term sustainable growth, in such areas as soil conservation and sound forestry. The MDB's should encourage countries to rely more on the engine of private wealth; that is the driving force of our society.

Senator D'AMATO. But are there certain developmental activities that cause greater dangers?

Dr. HAIR. Definitely. Road building, as it provides access for people to enter entire regions. Large scale clearing activities, and large scale hydroelectric projects that change the whole hydrology of river basins. These kinds of projects may alter the environment for all times, particularly when they are done with very little regard for the natural resources and for the indigenous people there. Those are the long-term impacts that are irreversible.

Senator D'AMATO. Thank you, Mr. Chairman.

Senator KASTEN. Thank you, Senator.

IDB RECORD ON FORESTRY CONSERVATION

Mr. Olson, in your testimony, you suggested that reading the literature of many of these lending institutions, it appears that environmental concerns are a priority if they could just follow their own direction.

I noticed in this issue, I can't tell you the date, but it is the current issue of the Inter-American Development Bank News, they start off with a lead article, a front-page article, describing an address that an IDB official has given. It says, "Rational Forestry." Then when you go

back and read the article, essentially the article ignored the practices of the Inter-American Development Bank in practicing forestry. In other words, it is just window dressing.

Can you tell me why such an institution would feel it important to prominently feature an article on the so-called rational forestry, when it actually is playing a major role in decimating the world's tropical forests?

Mr. OLSON. Senator, your question goes right to the heart of the matter. I think that it is camouflage, and it is necessary camouflage, given the environment of public interest, in this case, with the decimation of tropical forests.

Banks are as powerless to change, or big institutions are powerless to change their image as is anything else over the short term. As you know, any great institution or bureaucracy becomes what it is, and nothing else you can say or nothing you can do will change it, short of abolishing its own constitution.

The only immediate response that an institution of the size and the power and complexity, in this instance, of the Inter-American Development Bank, can change its image by declaring that its image has changed. We all do it, each in his own way, as a substitute for real action.

I criticize the bank, and we all criticized the bank for the fact that it cannot change its stripes overnight, and will not change its personnel or its policies, as if it were possible to do so. I submit, Senator, that it is very, very difficult indeed to do so because you have vested interest and rigidities. Therefore, the only way that you can respond to the public clamor about this subject is to treat it rhetorically.

Dr. HAIR. May I add just one comment?

We have heard their stated policy that everybody there is concerned about the environment. They go through a checkoff process. Unfortunately, we see too many instances in which institutions claim that everybody is responsible, yet it turns out that no one is responsible. They have that philosophy throughout the organization. But we feel it is essential that they have the specific staff people that are responsible for enviornmental programs if they are going to do the job in this area that they are required to do. Since we provide about a third of the funding of the IDB, it seems very clear to me that you have the unique opportunity to provide leverage.

CONCLUDING REMARKS

Senator KASTEN. Let me, first of all, thank you for your participation in what I think will be, as we look back over the years, a very, very important moment in the process of congressional hearings.

I think that we have, first of all, heard a number of positive suggestions here today. I want to assure you that we will be considering these suggestions in the appropriations process for the multilateral development banks, either in law or in report language, or a combination of both.

I also want to put the multilateral development banks on notice that we expect to see them be responsive to these criticisms. I think the fact that we now have additional Senators who are participating in this process gives us even more leverage on the issue.

I am sure also that we have the backing of the Treasury of the United States, and the fact that the administration is firmly in our corner on this issue, I think is something that should affect the Multilateral Development Banks.

Last, I know that we have the backing of the American people. As this issue is coming now more and more to the forefront, I think we are seeing people, of all political parties and persuasions, of all different parts of our country, start to read through and listen, they are saying: There is something going on here and we may be able to do something about it. It is not outside of our control. I think that the American people are very supportive of the directions that we are going in, and for that I think that we can be optimistic.

I intend to continue to work with all of you, and with the multilateral development banks in terms of reaching the kinds of rules and guidelines, checkoffs, so that we can reach the shared goals which I think were very, very well said today.

CONCLUSION OF HEARING

This hearing is concluded. I thank everyone for their participation.

[Whereupon, at 3:40 p.m., Wednesday, September 18, the hearing was concluded, and the subcommittee was recessed to reconvene at the call of the Chair.]

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